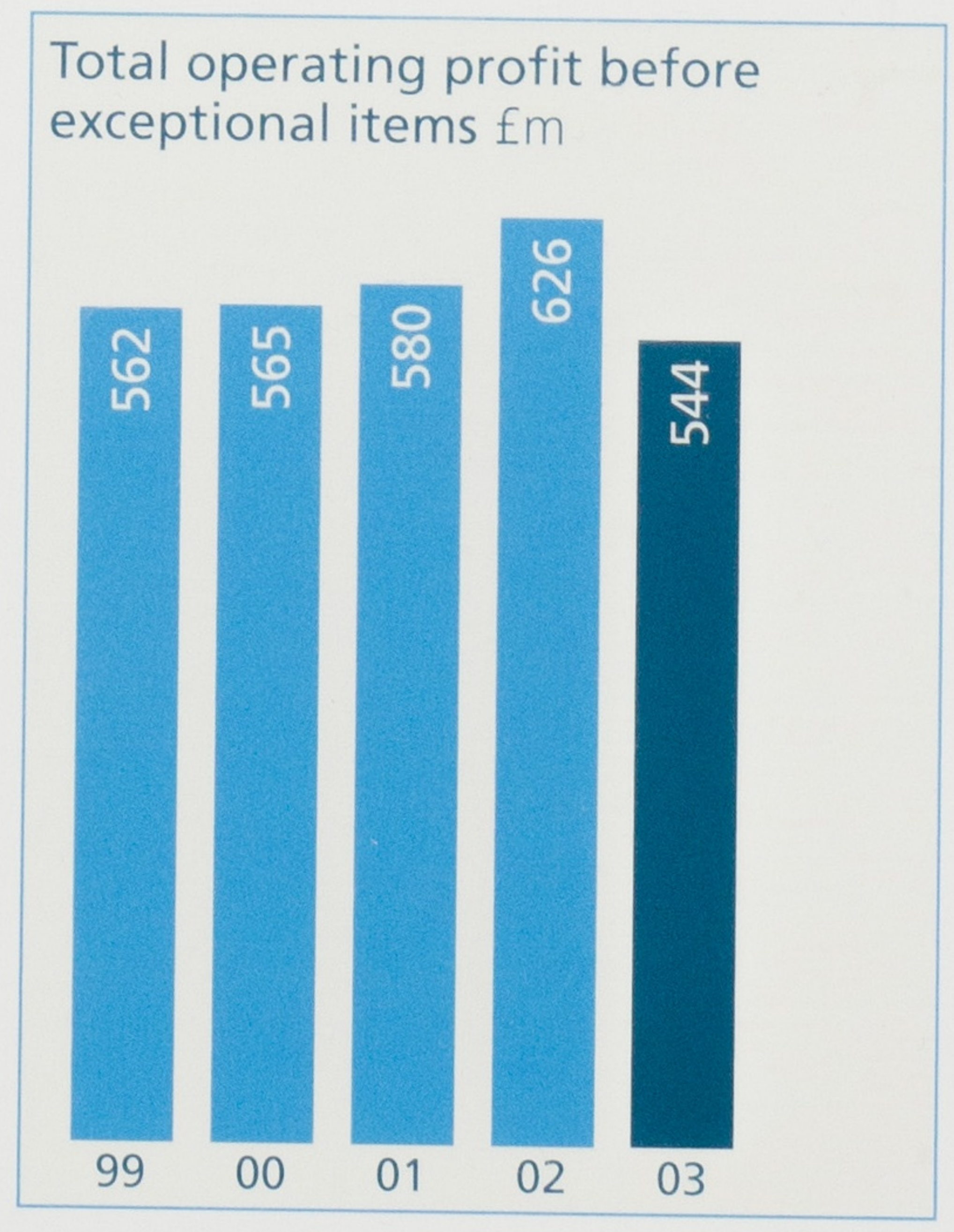
Boots

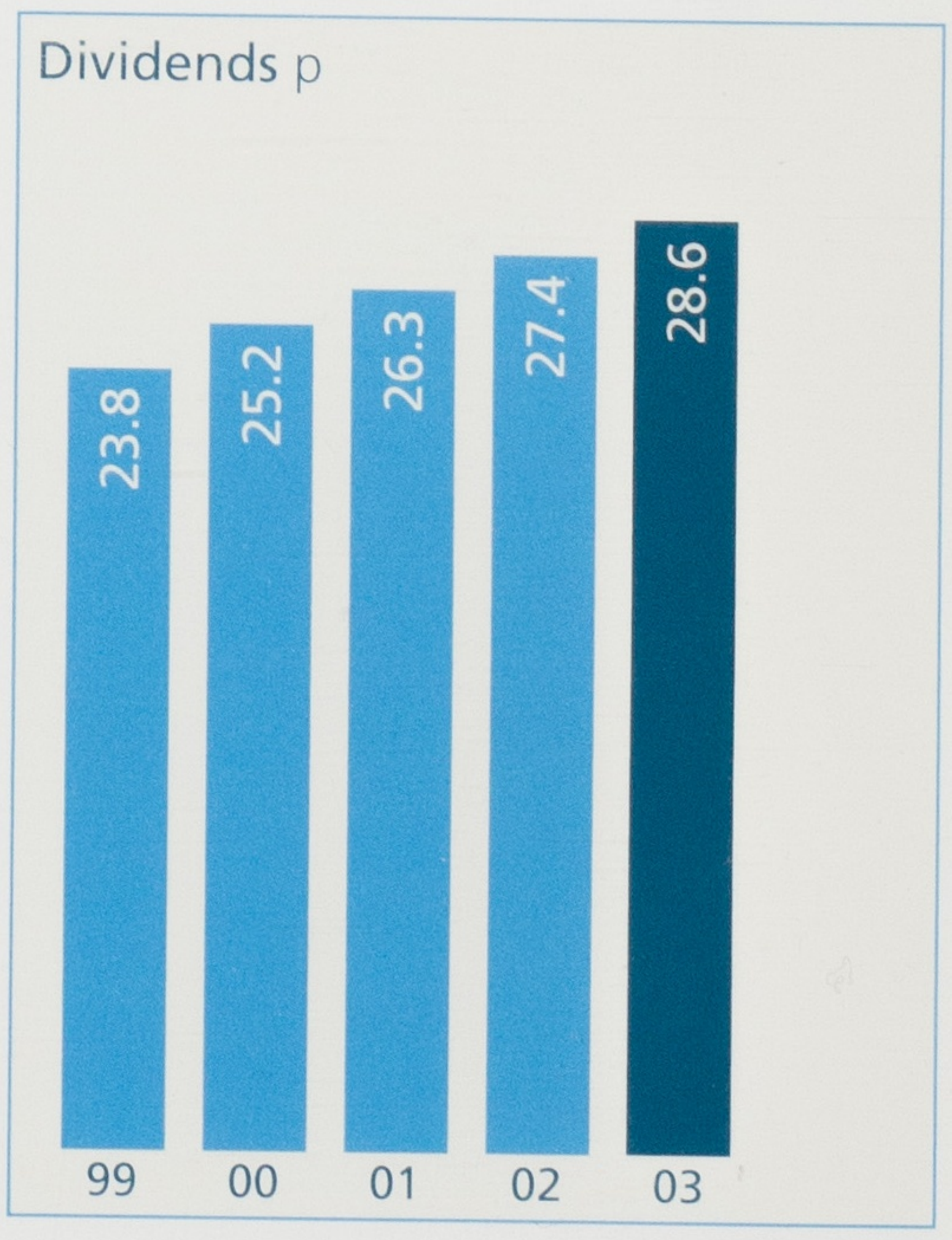
Annual Report and Accounts for the year ended 31st March 2003

A simple goal Boots aims to be *the* place for health and beauty customers. We want to secure market leadership in the UK and build on our brands' growing success internationally.

A simple structure We've focused the organisation on that twofold goal. We now have two core businesses – Boots The Chemists and Boots Healthcare International.

A simple strategy A leaner management team, under new leadership, is working to grow profitable sales in both core businesses – through increased, carefully targeted investment in stores, product and brand development, price and service competitiveness, and operational efficiency.





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Chairman's statement

This is my third and last annual report to you. As already announced, I am retiring on 15th September and handing over to Sir Nigel Rudd, who has been our deputy chairman since December 2001.

He takes the reins at an exciting time. The past three years have seen Boots transforming itself. It is now a much simpler and more focused business, and we are continuing to increase the pace and improve the effectiveness of change.

Results Our growth strategy is delivering the results we expected. Sales responded quickly to our renewed investment in the business, with underlying growth of 6.0%. As a result group sales for the year, at £5,327.3m, were almost unchanged on the previous year despite a sharply reduced contribution from Halfords, which we sold in August 2002. After a difficult first quarter, sales have grown strongly for three consecutive quarters. Boots The Chemists (BTC) had its best Christmas for a decade and we have held or grown market share in all counter health and beauty categories.

As we predicted last year, profits have been impacted in the short term by three factors

- a major programme of investment in BTC, Boots Healthcare International (BHI), and reducing costs for the future
- the sale of Halfords which resulted in an exceptional loss of £123.2m, and
- increased pension costs.

Shareholder returns The proposed final dividend of 20.2p per share makes a total for the year of 28.6p – up 4.4% on last year.

Boots is a strongly cash generative business and the Halfords sale brought us an additional £396.0m. As promised, we have been returning this extra cash to investors through share buy backs, in addition to the earlier buy back programme completed in September 2002. During the financial year we bought and cancelled 78.8m shares at a total cost of £462.8m.

The progress we are making with the business is being recognised in the share price. Over the past two years Boots shares have outperformed the FTSE100 by 31.9% and the retail sector by 6.0%.

Strategy Boots is now more focused than it has been for over a decade – and a great deal leaner. We are now able to concentrate attention and investment on a single company with two core businesses: BTC and BHI.

That focus has already resulted in several strategically important breakthroughs. We're investing to get all our stores up to the standards our customers expect, we've got on-shelf availability up to where it should be, and we've returned to strong, profitable sales growth.

In BHI our strategy of increased investment in brand and product development has restored strong organic growth and profits grew ahead of last year.

Our core operations are performing very well and our international retail operation is moving towards profitability with its new low risk, capital light business model.

This year we will continue to invest to improve product, price and service competitiveness, and to grow the business. To do this while stabilising margins at about their present level, we will keep improving productivity and cutting costs through our 'Getting in Shape' programme.

We have already acted to stem the losses from activities that look unlikely to deliver satisfactory returns in the foreseeable future. We are closing our 12 Wellbeing Services Centres and the six Pure Beauty stores – while continuing with Boots Opticians, LASIK, Dentalcare and Footcare. We are slimming down our international retail operations in Europe and simplifying them in South East Asia.

Our passion for innovation in products and brands remains as strong as ever. Our ability to develop powerful own brand and exclusive ranges sets us apart from competitors and gives customers compelling reasons to see Boots as *the* place for health and beauty.

Pharmacy In January the Office of Fair Trading recommended proposals for full deregulation of NHS pharmacy licensing. The Government's intentions are not yet clear, but we expect to see at least partial deregulation. This would give us a welcome opportunity to build market share – similar to that presented by the abolition of Resale Price Maintenance on over the counter medicines in 2001, which has enabled us to increase profits by some £6m a year. Pharmacy is an important growth area in which we are market leader. We are investing substantially in systems and in-store pharmacy to maintain our pre-eminence and confidently expect our pharmacists to play a growing role in primary healthcare over the coming years, helping to relieve the pressure on overworked doctors.

People Change is always challenging and rapid change can be very uncomfortable. The past few years have been tough for our people and I am grateful to them for their support, flexibility and hard work. All levels of the organisation have been affected, and there has been more change at the top than almost anywhere else.

In the past three years we have reduced our senior management team from 233 to 167 – over half the old team has gone and 66 new members have joined by promotion or from outside. Virtually all today's board and executive committee members have been appointed since I became chairman. We now have a strong, energetic and experienced executive team with an average age of 44.

After reviewing our succession plans we announced in December that we were looking for a new chief executive to drive the pace of change faster. In May we announced that Richard Baker would be joining us as chief executive from 15th September; Steve Russell stepped down at the end of May and I have taken on the role of chief executive until Richard arrives.

We are enormously grateful to Steve for all he has done for the company in a distinguished 36-year career. In particular, we thank him for his work over the past three years in simplifying the business he inherited, which had become too complex, refocusing it on its core strengths and restoring the momentum of sales growth.

Richard has an outstanding track record in both retail and marketing, and

we are very pleased to welcome him to Boots. He joins us from Asda, where he has held a number of senior appointments including group marketing director and, latterly, chief operating officer. Previously to this he worked at Mars. I believe that with Sir Nigel as chairman and Richard as chief executive we have an excellent combination of skills to lead our strong new executive team.

Fiona Harrison resigned from the board in November due to ill health. During her time on the Boots board she made a distinctive and valuable contribution, most recently as chairman of our Social Responsibilities Committee. We will all miss her deep interest in, and knowledge of, our customers and employees, and her understanding of the business climate in which we operate.

Ken Piggott retired from the board at the end of December, taking a new part-time role as corporate responsibility director, and Barry Clare left the company at the end of January. We are grateful to both of them for their contribution to the transformation of the business over the past few years.

We took the opportunity to strengthen the executive committee by adding Paul Stoneham, managing director of BHI, and David Kneale, who took on the new role of chief operating officer, Boots Retail. Paul had previously been president of Alberto Culver International and held a variety of senior marketing positions at Procter & Gamble. David rejoins the Company after being managing director at Waterstones. He brings back to the business exceptional trading skills and customs focus. Ann Francke joined the executive committee as director of strategic marketing. She had previously been a vice president at Mars, and general manager for skincare and cosmetics at Procter & Gamble.

Corporate social responsibility (CSR)
Boots is one of Britain's most trusted brands. The foundation for this is the company's long established community investment programme and desire for continuous improvement in its environmental performance.

We regularly participate in a variety of benchmarking surveys and welcome the opportunity to share best practice and experience with others. The feedback we receive is extremely valuable and helps us to shape our future plans to ensure they are consistent with the expectations of modern society.

Many reviews, such as the FTSE4Good and Dow Jones Sustainability Indices, highlight the positive contribution we are making; while others, like the Business in the Community Corporate Responsibility Index, have helped us to develop new CSR processes and thinking.

Further details of our achievements and plans are set out in our dedicated CSR Review. This demonstrates that Boots is determined to live up to its proud social heritage and the trust customers place in the Boots name.

Outlook Boots has got back to its retailing roots. We're recognising the importance of our store managers and staff, and engaging them in the drive to create an outstanding retail offering. We have begun a review to simplify and further improve our still over-complex supply chain. We've consolidated our position as the place for health and beauty.

And internationally, BHI is making its presence felt increasingly in the consumer healthcare market.We have a robust business model, a strong balance sheet and cash flow, good growth prospects – and plenty more to play for.

Our new chairman and chief executive still have important issues to resolve. The store portfolio needs to be rebalanced with a stronger edge of town presence. We have to continue flexing our pricing and promotions to match customers' expectations of value for money. The challenge for our new marketing director is to make all our stores even more distinctive. But we are in no doubt that vigorous growth in the health and beauty markets will give us ample opportunity to grow the core business. Our ambition is to strengthen our market leadership – and we are investing in the right things to achieve this.

This year we will feel the benefit of the past year's cost reductions and closures. We intend to keep sales rising strongly while holding our margins steady, making last year's profit dip merely a pause in a continuing story of long term growth.

J McGrath

John McGrath
Chairman

Chief executive's review

Boots is consolidating its leadership in health and beauty retailing. We have one of the most trusted brands on the high street and we've backed it with investment in attractive stores, innovative products and effective promotion. Our aim is to be *the* place for health and beauty.

Over and over again in this report you'll see one word: 'simplify'. Throughout the transformation of the business, our central aim has been to eliminate complexity.

Complexity wastes time and resources. It slows us down. It gets between our customers and us. We are simplifying our activities, our structure, our systems, our processes. All in pursuit of a single, simple ambition: to strengthen our position as the leader in health and beauty.

Fulfilling that simple ambition is not easy in a competitive marketplace. To maintain our leadership, we have to do two things: focus resolutely on health and beauty, with no distractions, and make sure we really are the best.

Focusing on health and beauty

Now that we've sold Halfords, Boots is dedicated to health and beauty. Halfords is a good business – and we got a good price for it – but it was diverting attention from our core activity. We are now a single company with two core businesses: BTC and BHI.

Health and beauty is an attractive market – our core categories have been growing at 4-5% a year over the last three years. It's also a broad one, encompassing services as well as products. In the past couple of years we've been running trials to discover just how much of that ground we can cover under the Boots brand. We've had some successes, but also some disappointments.

Boots Dentalcare addresses a fast growing market with clear profit potential. We are making operational improvements that will accelerate its progress towards profitability. Footcare is a smaller opportunity but, like dentistry, fits comfortably with our brand; customers trust Boots to provide primary healthcare advice and services from qualified professionals. Our LASIK laser eye correction clinics have seen strong demand from customers and we're now integrating this business more closely with Boots Opticians.

Our broader range of services, piloted in 12 Wellbeing Services Centres, proved less successful. BTC stores were not the right environment for 'pampering' beauty services, and the alternative therapy market is currently too small to be attractive for a mainstream brand like Boots. So we have decided to withdraw from this part of our offer.

We opened six Pure Beauty stores to pilot a specialist premium cosmetics offer. Customers liked it, but the returns simply didn't justify rolling it out. We are closing the stores but will apply successful elements of the offer in larger BTC stores.

Pharmacy is a fundamentally important part of our offer. It represents about a quarter of BTC's sales and is the foundation of our authority and credibility. It's a market with attractive long term growth prospects, driven by ageing populations and the prescribing of higher cost drugs. In the UK it's growing at 7-8% a year. We are a UK leader in pharmacy, and as the market place changes we will react quickly to strengthen our position further.

BHI is our channel into the international consumer healthcare market. It's an attractive, growing brands business that we've created through sustained investment over the past decade. Now it's fast becoming a material contributor to group profits with excellent growth prospects. Our target is for the business to make £100m of operating profit within the next three years from organic growth alone. It has built significant management capability and is delivering strong growth from a strategy of focusing investment on selected strong brands – primarily Nurofen, Strepsils, and Clearasil. It plans to accelerate that growth by acquiring more brands and revitalising them, as it's currently doing with Clearasil.

Overseas, Boots Retail International (BRI) is becoming a simpler business. Our original concept – a full drug store offering – proved too capital intensive to establish and too complex to support. We now have a low risk, low cost export model, based around Boots own brands and exclusives, which involves opening small implants in host retailers' stores. Having refined this model, we can now greatly simplify the BRI business. We are closing operations in Europe, slimming support operations and streamlining activities in South East Asia to concentrate on rolling out the new model in selected markets.

Being the best Today's consumers want excellent store environments, advice, service and products. To meet customer expectations we have to invest in all aspects of retail excellence while reducing costs so that we can offer real value for money.

In the past year we've been encouraged by how quickly customers respond when we start to get it right; we've already stabilised the long term decline in transaction numbers, our indicative measure of the number of customers in our stores.

We've begun a major investment programme to refurbish all our stores over four years. In the past year we've improved some 239, mainly in Central London, and a further 300 will follow this year.

We've stepped up our investment in staff. Our customers tell us that they really value the knowledge our store staff have. We intend to build on that strength. After increasing training and introducing new pay packages we've seen a measurable improvement in staff satisfaction and motivation.

At the start of the year our on-shelf product availability was just not good enough. A concerted effort raised availability of key lines from 90% to over 98% in time for the Christmas season. Across all lines, including key lines, availability is now over 98%. In one year we've moved from a clearly unacceptable performance to one of the best in the retail sector. We've changed policies and procedures and retrained 12,000 people throughout the supply chain and stores to make sure everyone could play their part.

The improvement in on-shelf availability so far has come from fixing our existing system. We're now in the second year of a three year programme to completely overhaul the supply chain to deliver a step change in efficiency.

To satisfy customers' appetite for new products, we brought some 1,400 new lines to market. We increased the distribution of premium cosmetics and now have them in 125 stores. We joined forces with Adams, the leading childrenswear specialist, to launch a new 0-4 years baby and toddler clothing range – mini mode – exclusive to Boots. We launched Healthy Living in over 100 stores, offering over 550 products ranging from exercise equipment to detoxing systems, and we significantly broadened our Christmas and seasonal ranges.

As promised last year, we invested over £17m in product innovation to sustain our own brands. Launches included new brands like Starlet, Essentials and Advanced Plus. We introduced over 500 new products under existing Boots brands and over 120 under Boots-exclusive brands such as TONI&GUY and Charles Worthington. We'll maintain substantial investment in new product development to create additional sales opportunities.

The other essential action last year was to sharpen our price competitiveness in commodity toiletries. This reduced margin, but it was a decisive factor in stemming the decline in transaction numbers and driving sales up. We'll continue to offer value for money this year. We've also expanded points for the Advantage Card offer to include healthcare sales. Since relaunching the card last year we've issued one million new cards. It's one of the world's largest loyalty schemes, with nearly nine million active users. We will continue to use the information the Advantage Card gives us to better anticipate customer needs in the future.

We continue to invest in our pharmacy business. Last year we opened a new automated warehouse and distribution system costing £10m that replenishes pharmacies every morning. To improve the speed of our dispensing we're also investing in innovations such as our carousel dispensaries. By reducing the time it takes to dispense a prescription, it allows our pharmacists, who are highly skilled healthcare professionals, to spend more time with our customers. Customers value the difference, and a typical installation brings a pharmacy sales uplift of up to 6%.

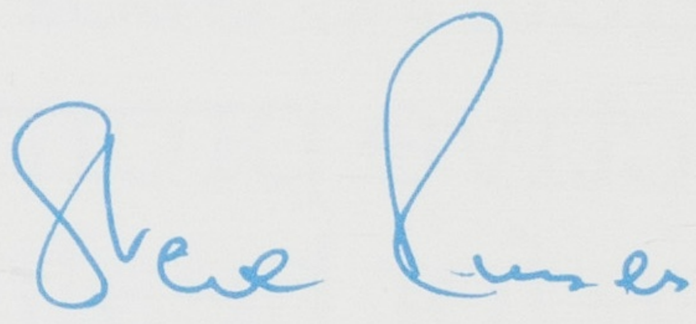
To deliver all these improvements while making good returns for shareholders, we have to make changes behind the scenes as well as in the stores. We've made great strides in simplifying the Boots organisation and driving out costs, and in November we started a new programme aimed at saving a further £100m in costs.

Our purchasing continues to become keener, and we believe there are major savings to be made through outsourcing. Last year we outsourced our IT, which will bring savings of £100m over 10 years. The proposed closure of the Airdrie manufacturing plant was announced in February, as part of a plan to simplify and rationalise production capacity. And in May this year we announced plans to outsource transport and some of our warehousing.

Where next? Last year's sales boost was just the start. Boots is beginning to reap the benefit of recent investments. But if we want to continue to be the best place for health and beauty, we need to be in the right places.

We have an unrivalled presence on Britain's high streets but are underweight on edge of town sites. If we're going to achieve sustained strong growth, we have to address this. Our pilot implants in edge of town Sainsbury stores were profitable; but we were unable to agree mutually acceptable terms for reaping the potential benefits. Instead, we've accelerated our opening programme for suitable standalone sites. We opened two edge of town stores last year and we intend to open a further 20 this year.

To return to the theme of simplification, a simpler organisation is faster and more agile. Boots has a strong management team and under the leadership of Sir Nigel Rudd and Richard Baker I look forward to seeing sustained and profitable growth.



Steve Russell
Chief Executive

Review of operations

Both core businesses reaped the benefit of increased investment. Boots The Chemists increased market share in key areas and had its best Christmas for a decade. Boots Healthcare International's four-year growth strategy delivered the promised boost to sales and profits ahead of schedule. Meanwhile Wellbeing Services and Boots Retail International cut out less promising activities to focus on those with greatest potential for profitable growth.

Boots The Chemists

Sales £m	4,284.4
Increase %	5.2
Profit £m (before exceptionals)	568.6
Decrease %	(6.0)
Sales split	**£m**
Health	1,716.4
Beauty & Toiletries	1,891.9
Other	676.1

Boots the Chemists showed strong sales growth in the year, particularly in the second half. The business held or grew market share by value in all counter health and beauty categories. The Christmas trading performance was the best for a decade, and the decline in transaction numbers was stemmed. Our prices in commodity toiletries and healthcare became more competitive, in part passing on the benefits of better buying and cost efficiencies. This, together with investment in store refits and higher pension costs, resulted in a fall in operating profit to £568.6m (before exceptionals).

Strategy BTC's customer appeal is founded on the trust and heritage of the Boots brand, broad choice of own brand and proprietary products, innovative new product development and expert service and advice. We are focused on the health and beauty markets and are confident of growing with them. We will maintain our leadership position through innovation, continued development of our store portfolio, understanding of consumer needs reinforced by analysis of Advantage Card data, and clear value positioning supported by tight control of operating costs.

Trading Sales rose 5.2% over the year (4.8% like for like). The increase was stronger in the second half than in the first, and growth over the Christmas period was the best for ten years – third quarter sales were 8.1% up on the previous year.

Healthcare sales rose by 5.1%, led by our prescriptions business. Beauty & Toiletries grew by 6.8%, with a particularly strong performance from cosmetics and fragrance. Sales in other categories, including baby, food, photo, seasonal and Digital Wellbeing, grew by 1.3%, driven by our enhanced Christmas range and a strong performance in baby products.

We held market share in all counter health and beauty categories with improvements in cosmetics (where we saw particularly strong sales growth), baby and over the counter (OTC) healthcare. Market share in toiletries was maintained and we saw a slight decline in our dispensing market share.

The number of transactions was slightly down for the year as a whole, but the long term decline stabilised in mid-year. The Advantage Card was a key driver. Since relaunching it last year, we have issued a million new cards.

Operating profit was affected by investment in stores, keener promotions and increased pension charges. Underlying margins were down by about 1.1 percentage points, due largely to pricing, promotions and a slightly adverse change in the sales mix, partially offset by savings in the cost of goods.

Health The regulation of the pharmacy market is under review by the Department of Trade and Industry (DTI). At the time of writing it is unclear what the outcome of the review will be, however the DTI are known not to favour total deregulation. We believe that some degree of regulation is necessary to secure convenient access to community pharmacy for all. We are keen to work with all the relevant authorities to ensure that any changes to the current regulations

deliver an enhanced service, offer wide access to convenient community pharmacies, and play a fuller role in the nation's primary health care.

During the year, although we increased the number of prescriptions dispensed, we saw a slight decline in market share because the pattern of prescribing changed to favour older people.

We began a substantial investment programme in our pharmacy operations, installing more carousel style dispensing units which speed-up customer service and let pharmacists spend more time consulting with patients. We have begun a programme to double the number by March 2004. We also began to introduce our new pharmacy system, SmartScript, which will further enhance customer service and give us more detailed information on our dispensing business.

Since the abolition of Resale Price Maintenance on OTC medicines we have gained market share on the back of an attractive programme of promotions.

Beauty & Toiletries Sales grew strongly throughout the year but particularly over Christmas which saw an increase of over 10% overall and sales of beauty gifts up almost 40%. Sales of premium cosmetics grew by over 15% increasing market share by 1.5% in the year. We now sell them in 125 stores and we are the leading UK retailer of a number of major cosmetic brands.

Within our own brands N°7 continued to perform strongly with sales up 14% following the launches of Intelligent Colour Foundation and the Skincare Vitamins range. The pre-Mothers' Day week was the biggest in the brand's history.

Toiletries grew in line with the market supported by a combination of innovation and promotion. New own brand ranges included Mediterranean Essentials and fcuk® branded toiletries for women.

Boots is also the partner of choice for launching and promoting new proprietary products, and last year we continued to emphasise this area. Boots led the launch of the new Gillette Mach III Turbo blades in January attracting immediate share of 60%. Some four months later we continued to sell more than our expected share. During the year we ran strong promotions in the toiletries category including 99 pence price points, and were successful in maintaining market share.

In sun preparations sales were up over 14% and we gained 4% of market share, helped by the strong performance of the St Tropez self tan range.

Other Sales grew by 1.3% reversing the trend of the last two years.

Baby had a good year, with sales up 4.7%. We are supporting this category with stronger promotions because they are very effective in raising overall footfall. As a further boost we have developed the mini mode childrenswear range in conjunction with Adams. Launched in February, it is making encouraging progress.

Food sales showed no growth over the last year and we saw a decline in sales in London affected by increased competition and the downturn in tourism. We relaunched our sandwich packaging in May 2003 to enhance customer perceptions of our range. Photo sales were down 7.6% in a rapidly declining market, reflecting customers switching to digital photography and the associated reduction in spending on films and similar products. In response we are broadening our range of digital cameras and installing instore technology to produce photo quality prints from digital memory cards.

Growth in sales of seasonal merchandise was due largely to an enhanced range of Christmas lines. The inclusion of a broader assortment of products is valued by our customers and helps us to become a destination shop at Christmas. We intend to place more emphasis on seasonal lines in the future – for example, broadening our range of summer related products such as swimwear to sell alongside sun preparations.

During the year we brought the wellbeing.com website in-house and renamed it boots.com.

Total online sales grew 120% in the year, and average order value grew 17% as customers became more confident online shoppers. In November 2002 independent research reported a record 592,000 unique visitors, making it the UK's tenth busiest retail website.

Products Product innovation played an important role in the year's sales growth. N°7 had the best sales in its history, with Intelligent Colour Foundation proving to be its most successful product launch ever. This innovative foundation is a unique silicone gel/pigment blend which promises to match the skin tones of all women with just three shades. Sales have exceeded forecast by almost 40%. Other N°7 debuts included the relaunch of DailyV Skincare, which is outperforming the old range by 34%.

The most successful addition to the 17 range was Fat Lash, a volumising mascara in an innovative tube pack format which achieved excellent sales in its first six months. Over a third of

buyers are new to the 17 brand.

We continued to extend the popular Botanics range. Its Face Renewal Cream was named best anti-ageing cream by *M* magazine. And the simple idea of bundling miniature packs of Botanics products into themed kits – such as the Facial Pamper Kit and Weekend Pamper Kit – has been a great success in introducing new customers to the brand.

The new Mediterranean range proved a good example of turning consumer insights into popular products. It capitalises on the popular appeal of Mediterranean diets and lifestyle to create innovative toiletries that already have annual sales of over £4m.

Innovation and style are part of the whole Boots brand offer, not confined to our premium products. We have grown the volume sales of our everyday value products by bringing them together under the Boots Essentials brand, which has won an award for its packaging design. Essentials now covers all major toiletry categories – washing and bathing, haircare and men's.

Store development In addition to our store reinvigoration programme, we undertook other schemes including the refitting of our Victoria Centre, Nottingham store. Although we reduced the product sales area by 22%, we increased weekly takings by £35,000 per week, representing a sales intensity increase of almost 40%.

Over the next 12 months we will accelerate our store development programme. We have restarted our edge of town programme and aim to open 20 more stores by April 2004. In addition, we will undertake many projects within our existing portfolio of high street stores. To respond to evolving customer shopping patterns these will be a combination of opening new stores, space changes and closures. Taken together, these changes represent a significant increase in our development programme to enhance the quality of our store portfolio.

Boots Healthcare International

Sales £m		460.4
Increase %		13.0
Profit £m (before exceptionals)		70.1
Increase %		5.1
Core brand sales increase %*	**£m**	
Nurofen	117.8	21.7
Strepsils	77.8	7.7
Clearasil	86.9	14.4
Dermacosmetics	61.5	10.0

*at comparable exchange rates

In February 2002 Boots Healthcare International (BHI) announced a four-year plan to step-up investment in marketing and new product development, to deliver a new strategy of building major international consumer healthcare brands. A pause in profit growth was predicted for 2002/03 while we regenerated organic sales growth through the increased brand investment. Nevertheless, we have delivered sales growth of 12.3% at comparable exchange rates and delivered a 5% rise in operating profit.

Strategy BHI aims to become a top ten global player in OTC healthcare. We aim to achieve this by developing six to eight leading consumer healthcare brands. We are driving brand innovation to capture a top three leadership position in our three core OTC categories of analgesics (Nurofen), cough/cold (Strepsils) and skincare (Clearasil), while also developing new brands. To fulfil our aspirations more rapidly, we will also seek to acquire brands to which we can apply our brand rejuvenation and development capabilities.

We are aiming to accelerate organic growth through increased marketing and new product development expenditure. We will have greater focus on both our development pipeline and in-market execution. In 2002/03, over half our organic growth was generated from products launched during the year.

The year's largest product launch was a major extension of the Clearasil brand, Clearasil total control, targeting the high-value 'young skincare' market. We also broadened the Nurofen brand by launching indication-specific products for conditions such as menstrual pain. These projects were brought from marketing concept to launch within 14 months.

We remain on track to deliver the financial projections we communicated to the City in February 2002. However, to reach our goal of being a top ten player more rapidly we intend to supplement organic growth with acquisition.

Results Sales of £460.4m represented top line growth of 13% (12.3% at comparable exchange rates). Profit of £70.1m was 5.1% ahead of the previous year.

In line with the growth plan, brand investment (including brand marketing and new product development expenditure) increased by £27.3m, moving from 25.1% to 28.3% of sales. Brand marketing expenditure rose by 26%, while new product development spend was up 42% to rebuild the three-year product innovation pipeline.

Operating margin of 15.2% reflected effective control of operating costs,

which fell as a percentage of sales by 1.5 percentage points, and cost of goods, which fell by 0.6 percentage points.

Our research and development programme made significant progress in developing products that will continue to build our brands and take us into new therapy areas. Clinical trials have progressed well.

Organisational change is focused on four goals; breakthrough brand innovation, streamlined decision making, building high performance teams, and clear leadership.

Analgesics Sales of Nurofen grew 21.7% at comparable exchange rates, driven by strong performances in the UK, Australia and Eastern Europe.

Growth was driven by new products, new packaging such as handbag packs to offer convenience, and quality new advertising. Key launches were Nurofen for Children Singles, and Nurofen Recovery in the UK, and Nurofen Menstrual in Poland. Nurofen Plus strong painkillers led us to pharmacy market leadership in Australia. The continuing success of Nurofen for Children is growing our share of the children's market in several parts of Europe.

Cough & Cold Strepsils' worldwide growth was 7.7% at comparable exchange rates. The roll-out of Strepfen benefited from the wide distribution of Strepsils internationally. We also had early signs of success with our entry into the cough segment in Asia, extending the brand beyond sore throats.

Skincare Overall sales of core skincare products grew 12.6% at comparable exchange rates, led by strong progress in revitalising Clearasil.

Clearasil sales grew 14.4%, advancing strongly in the US, UK and Australia.

Growth has been accelerating, from 4% in the first half to 26% in the second, backed by new TV advertising and extensions of the base range into body wash, cleansing wipes, overnight treatment gel and sensitive face wash. We have switched the brand from decline to growth in all major markets (except Germany and France) and expect stronger growth this year from these markets as investment increases.

In the fourth quarter this growth was supplemented in the US and UK by the launch of the Clearasil total control range, which extends Clearasil from spot control to young skincare. Targeting women aged 16-24, it provides products for the five most important needs of young skin; shine reduction, moisturisation, blemish control, sun protection and evenness of skin tone. These have received very positive trade reaction as we have built the distribution pipeline.

In dermacosmetics, total sales rose by 10%. E45 sales benefited from new product launches including the E45 Junior range. Lutsine continued to grow strongly in Italy and Spain, but in France sales were disappointing – they will improve as we benefit from the more unified global platform, further product innovation, and improved in-market execution.

Opticians & Eyecare, Dentalcare and Wellbeing Services

Sales £m	262.5
Increase %	13.6
Operating loss £m	(28.6)
Increase %	13.6

During the year we decided to close our Wellbeing Services while retaining Dentalcare and Footcare. The Opticians & Eyecare business continues to rebuild profits in its core market. The exceptional costs of closing Wellbeing Services were £34.5m.

Opticians & Eyecare The UK optical market is a mature one – highly competitive and growing at only 2-3% a year. Our strategy is to achieve modest sales growth and stable market share, while controlling costs tightly to enhance profits. After a period of moving upmarket we are returning to a broad appeal, in keeping with the overall Boots brand.

Sales for our core business grew 7% in the first half, but were weak in the second , with a year on year decline of 1% bringing growth for the full year to 3% – roughly in line with the market. Tight cost control held profits level at £9.6m.

LASIK sales grew 84% increasing our market share from 15% to 18%. We opened 4 new clinics during the year – at Bluewater, Bristol, Glasgow and Nottingham making a total of nine. The business made a trading loss largely due to higher marketing costs in a more competitive market. We are now integrating LASIK more closely with the core Opticians business to reduce costs and increase cross-referral.

Dentalcare While we have closed our Wellbeing Services we have decided to retain our Dentalcare business. Private dentistry is a £2bn market in the UK and may have the potential for Boots to develop a profitable business model. Sales rose 64% to £21.8m and we increased the number of registered patients by 75% to 175,000. The business is growing well, but we want

to shorten the time it takes to bring new practices to profitability.

We have changed the model, moving into line with standard industry practice by transferring our dentists to self-employed status. This will make it easier to recruit and incentivise dentists while making the professional staff cost base more flexible. We believe this will shorten the period to breakeven.

Footcare continues to operate from 44 locations, in association with dental practices.

Insurance Services Health and travel cover is a small but profitable business. Sales and profits were in line with the previous year.

Boots Retail International

Sales £m	37.0
Decrease %	(8.2)
Loss £m	(22.3)
Increase %	7.5

We have found that there is significant demand for Boots own brand and exclusive products in some overseas markets. We will meet this demand through the use of a low cost export model with retail partners who host Boots brand implants in their stores.

Strategy BRI has 66 stores and 106 implants, almost all in South East Asia. Our strategy is now based on export sales through low cost, low risk implants selling a select range of about 800 Boots own brand and exclusive products through selected host retailers. This simplified approach enables us to focus on managing the instore offer, controlling costs and building scale.

Performance Overall sales were in line with the previous year, in a period of major change involving the closure of stores and opening of many implants. In Thailand like for like sales grew 7%. The operating loss of £22.3m includes £5.5m for exiting the loss making European operations and restructuring our business in Asia.

South East Asia A year ago we announced agreement with Watsons, South East Asia's leading drugstore chain, to open implants in Taiwan. We now have 54 implants in Watsons stores. We are now simplifying our Taiwan operation, growing to around 100 implants, closing our Boots stores and shipping direct to Watsons.

In October we launched a similar arrangement with Watsons in Hong Kong, where we now have eight implants and performance to date is encouraging.

In Thailand, we have had a very successful year in turning the business around. Strong like for like sales growth of 7%, margin growth and cost reduction have significantly improved the results of the business.

Supply and support services

The simplification of the organisation has enabled us to integrate our supply chain, logistics, procurement, IT, manufacturing, properties, engineering and facilities management activities and our retail buying operation in Hong Kong into a single support organisation serving all our retail operations and BHI.

The year's principal achievements were the dramatic improvement in on-shelf availability – without which our sales growth would not have been possible – and the outsourcing of IT, which will save £100m over 10 years.

Supply chain Now that on-shelf availability is running at acceptable levels, we can begin to reduce the large distribution inventories that we currently hold around the country.

In June we opened a new automated single-picking warehouse on our Nottingham site to support our dispensing operations. This now provides top-up deliveries to all our pharmacies every morning. It is the biggest system of its kind in Europe and has enabled us to close our Aldershot warehouse and downsize Heywood, reducing total headcount by 700.

This year we have launched a supply chain transformation programme involving long term structural change, including rationalisation of manufacturing. The aim is to deliver best in class on-shelf availability in parallel with reductions in cost and working capital.

We are working towards a supply chain that will replenish stores' stocks of most lines every day – delivering straight to the shelf. We will only hold inventory in store stockrooms for the few lines such as nappies and seasonal items that need replenishing more than once a day. This will deliver significant savings in store staff time, and reduce inventory. Trials of the new replenishment system begin this year.

Currently there are multiple locations holding balanced stocks around the country. Vehicle capacity utilisation is low because of inherent inefficiencies in the system. We are moving towards category-specific warehouses supplying regional distribution centres which will crossfeed into delivery vehicles for stores. Transport will be better

integrated, greatly improving vehicle utilisation. On the upstream side, we will also move closer to just-in-time delivery from suppliers. All these changes will use proven technology and should result in better customer service at much lower cost.

We will also outsource all our transport services and the management of a major Nottingham warehouse.

Manufacturing We have completed a review aimed at simplifying and rationalising production capacity, and in February 2003 we announced proposals to close our Airdrie manufacturing facility over the next two years. Savings from the closure will amount to £16m a year. About 1,000 people work at the site and we have declared our determination to minimise the social impact of any closure. Closure of Airdrie will allow us to realign production resources in favour of short-cycle manufacturing. Until now, big-batch production has meant that some lines are made infrequently – resulting in large inventories, exposure to forecasting errors and slow response to changing fashions. The investment cost of switching to short-cycle manufacturing will be relatively low because we will be able to adapt existing equipment, including some transferred from Airdrie.

Purchasing During the year we reduced purchasing costs by £30m, mainly in buying goods not for resale. We are continuing to make effective use of global internet auctions, saving money on purchases ranging from TV advertising to plastic bags.

IT In 2001/02 we reorganised our IT function, bringing 14 groups into one and establishing an integrated business process and information systems blueprint for the future. In the past year we have made real progress in the development and implementation of that blueprint, Project Backbone, and announced investment of £79m in the coming year.

To support our new IT strategy we have outsourced our IT operations under contracts worth a total of £800m, transferring over 600 staff to IBM and Xansa. The result will be annual savings of £8m immediately, and a total of £100m over the ten-year contract period.

These savings will help to offset investment in new systems and processes that support the organisational change going on across the business. By the end of this year we will have made substantial progress in implementing new finance, human resource, space and range planning systems, and will be about to begin deploying a new merchandising and supply chain system.

We have installed 2,290 new touch-screen tills in 218 stores as part of the store reinvigoration programme. This year we will add a further 3,000 new tills in 109 large stores in time for the Christmas season.

We continue to develop the Advantage Card's capabilities, upgrading the instore kiosk system to generate more personalised offers based on individual customers' spending patterns. Very few retailers anywhere are able to use their loyalty cards in this way, and we are continuing to add enhancements.

Property Our property team has greatly simplified its processes, to improve the efficiency of its acquisition, construction and maintenance operations. It is now clearly focused on servicing the Boots The Chemists and the disposal of its investment and development portfolios is almost complete. Last year we realised £61m from disposals, £23m from investment properties and £38m from Halfords sites. The only sites remaining to be sold are the shopping centres at Hastings and Kendal. The plan is to dispose of these in the current financial year.

Corporate social responsibility

People have high expectations of Boots. One of the strengths of the Boots brand is that it is more trusted than almost any other brand or institution in the UK. To earn and sustain that trust, we must be seen to behave with integrity and responsibility.

Business in the Community recently published the preliminary findings of its first Corporate Responsibility Index. These confirmed our strength in areas such as community investment and the environment. They also highlighted the need – which we have been addressing – for more engagement with corporate social responsibility (CSR) issues at board level.

Last year we strengthened the role of the board's Social Responsibility Committee, now led by non-executive director Hélène Ploix, and gave executive board responsibility for CSR to HR director Andy Smith.

We are reinforcing the linkage between CSR policy formation at board level and effective programmes of action throughout the organisation. This work is led by Ken Piggott, who moved from running Boots The Chemists to take charge of it. He has carried out a major CSR review, benchmarking our performance against other organisations and developing detailed targets and action plans.

Environment Boots has long been committed to rigorous environmental management and reporting, and to becoming a more sustainable business. In 2003 we took a major step forward by establishing a sustainability strategy for the chemicals we use in our products, developed in consultation with a wide range of stakeholders. We have also published a strategy on biodiversity, another important sustainability issue.

If we are to make meaningful, measurable steps towards becoming a more sustainable business we need to decouple our growth from our environmental impacts – so that business success does not come at a corresponding cost to the environment. For example, despite increasing turnover last year we cut waste disposal by 8.4%. This saved us around £160,000 in disposal costs alone – and disposal costs represent only a relatively small part of the total cost of waste to the business, which also includes the cost of extracting, manufacturing and transporting the raw materials to Boots. Around 46% of the 37,000 tonnes of waste we produced last year was recovered through recycling or incineration with heat recovery. We have now set a five year goal of reducing like for like waste disposal by a further 20%.

Packaging recovery and recycling grew 31.6% to record levels, 4.1% up on our previous best. This avoided the need to dispose of over 15,000 tonnes of material, saving over £1.3m in landfill costs and generating income of around £280,000 from saleable material. A KPMG audit of our compliance with packaging waste legislation reported an 'excellent result' and Repak, the Irish compliance scheme, awarded us a Certificate of Excellence.

Our transport fleet continues to raise its fuel efficiency. In 2000 we set a three-year target of reducing diesel use per m^3 of stock carried by 3%. We have beaten that figure, with a 4.0% improvement from 12.87 to 12.36 litres per m^3 of stock. Last year we also cut the fuel used per £m of business turnover by a further 5.0%.

Like for like energy consumption improved by 2.7% from 147kWh to 143kWh per £000 turnover. We are increasing our focus in this area, to sustain progress against a background of increasingly energy-intensive business needs such as comfort cooling for customers and staff, and increasing warehouse automation.

Further details of our environmental strategies and policies, and a full report of our environmental performance during 2002/03, are available on our website at www.boots-plc.com/environment

Ethical sourcing We source products internationally and recognise our responsibility for the conditions under which they are manufactured. By building social accountability into our purchasing procedures we aim to ensure that we and our customers do not unwittingly support abuse of human rights, unsafe working conditions, unfair wage rates, child labour or forced labour.

The standards we ask suppliers to meet are set out in the Boots Code of Conduct for Ethical Trading, based on International Labour Organisation standards and UN conventions. We require all our suppliers to comply – and to ensure that their own suppliers meet our standards. In cases of non-compliance we first give the supplier an opportunity to take specified remedial action, as summary withdrawal of our business could itself have a harmful social impact.

Our own compliance team covers suppliers of Boots branded products in the UK and Europe, and expects to have assessed all 400 existing suppliers by April 2006. In Asia we use consultants, who expect to complete assessment of our existing 270 suppliers there by autumn 2005.

This year we joined the Ethical Trading Initiative, an alliance of companies, non-governmental organisations and trade unions. This will enable us to learn from other members, share experience and further refine our approach to ethical sourcing.

Our people The way we recruit, retain, develop and motivate people determines our ability to serve customers and meet our responsibilities to other stakeholders such as shareholders. Boots has a reputation as a good employer; in recent years, for example, we have done much work on family-friendly policies and we retain a good pension scheme.

In the past couple of years we have faced a new challenge: large-scale organisational change. Change can affect people for better or for worse. It brings new opportunities, but also stress and uncertainty. Some gain new skills and challenges and unfortunately others lose their jobs. To maintain our integrity as an organisation we must address these issues sensitively and effectively.

We have involved people in the change process through two-way communication and consultation. Where appropriate we have provided training for staff representatives and access to independent advice. Wherever possible, when job losses are unavoidable, we have developed programmes to help people through these difficult times and to find alternative work.

In training and development we have focused on giving people the skills they need for new roles – and ensuring that their managers can provide support, leadership and motivation. We have also run programmes geared to specific strategic objectives: specialist training for some 12,000 people was a crucial element in the drive to raise on-shelf availability in our stores.

Community investment Our community investment last year amounted to £5.0m in cash, donations and sponsorships, and contributions in kind including £680k worth of recycled merchandise. We encourage all our stores to develop initiatives in their local communities, and following extensive consultation are preparing a guidance manual of best practice for distribution to stores this summer.

Perhaps the most significant development in our community programme has been its increased alignment with the strategic aims of the business. In particular, we have worked with the NHS in Nottinghamshire and with other health organisations to support and develop health promotion initiatives in the community.

Regular consultation surveys with our staff confirm their support for health related activities. We also know that our staff are among the most generous employees in the country. The Charities Aid Foundation gave our relaunched Give As You Earn scheme its Smile award last year, noting that Boots people donated 40% more than the national average.

We continue to support the time and energy our people give to fundraising and community activities and last year we matched the £168,000 raised by staff for the charities of their choice. We also supported team challenges in which 193 staff took a day out of normal work activity to improve facilities for local community groups – for example by decorating rooms in hospitals and landscaping the area outside a children's clinic.

A partnership between Nottingham City Hospital, New College Nottingham and Boots has resulted in the creation of Time for a Treat workshops at the City Hospital. These have provided a health boost for more than 100 hospital patients and clients from the local community. The positive response to the workshops for long term patients has led to the development of a permanent patient massage service at the hospital for patients who are unable to leave their beds.

NHS staff have benefited too. In the past year two staff Time for a Treat days at Nottingham City Hospital have provided a range of health treatments for some 300 people from the hospital and a neighbouring primary care trust. The success of these events has led to the development plans for a permanent service for staff at the hospital.

For further information on our community investment, see our website at www.boots-plc.com/communityinvestment

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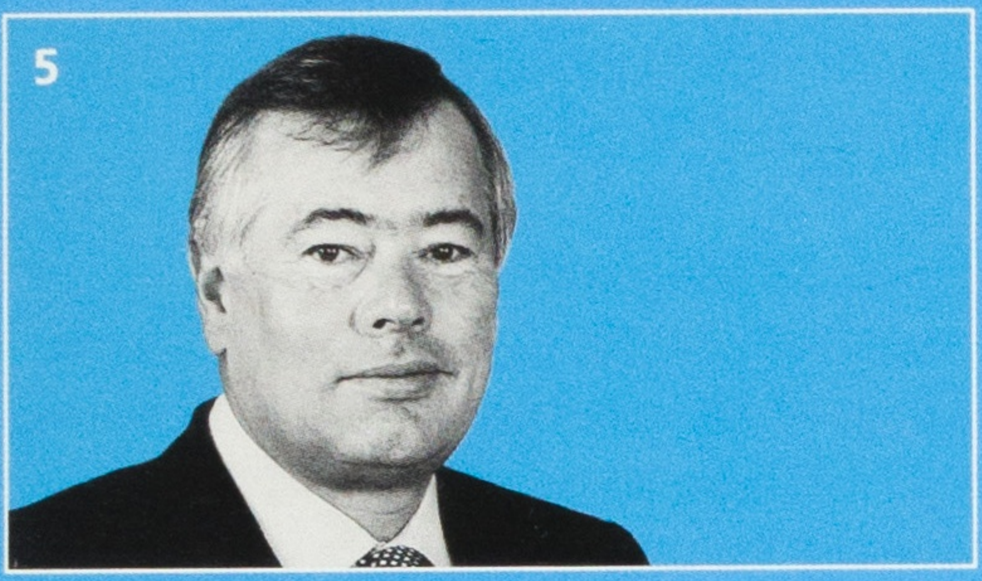

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Board of directors

1
John McGrath 64, appointed December 1997, chairman since August 2000 and chief executive since 1st June 2003. Group chief executive of Diageo until his retirement in December 2000. He was group chief executive of Grand Metropolitan before GrandMet and Guinness merged in December 1997 to form Diageo. Previously chairman and chief executive of IDV, GrandMet's spirits and wines business.

2
Howard Dodd 43, appointed finance director April 2002. Howard is a chartered accountant and a fellow of the Association of Corporate Treasurers. Previously he worked for AstraZeneca and ICI, where he gained significant international experience in finance and treasury.

3
Paul Bateman 50, group operations director. Responsible for logistics, manufacturing, engineering, procurement and properties. Joined Boots in 2001 to lead supply chain and business services development. Previously worked for Procter & Gamble.

4
Andy Smith 42, group human resource director. Joined Boots in 1997 as director of personnel. He was director of personnel for Boots The Chemists from 1999 before being appointed to the board in April 2001. Previously he worked for Pepsi Cola and Mars Confectionery.

5
Sir Nigel Rudd 56, appointed December 1999 and deputy chairman since December 2001. Non-executive chairman of Kidde, Pilkington and Pendragon. He is also a non-executive director of Barclays.

6
Hélène Ploix 58, appointed September 2000. Chairman of Pechel Industries. She is also a non-executive director of BNP Paribas, Ferring, Lafarge and Publicis.

7
Dr John Buchanan 60, appointed December 1997. Formerly group chief financial officer and a managing director of BP. He is also a non-executive director of AstraZeneca, BHP Billiton and Vodafone Group.

8
Dr Martin Read 53, appointed 1999. Group chief executive of Logica CMG, one of the world's leading global IT solutions companies. Before taking over at Logica in 1993, he held a number of senior positions at GEC Marconi. He was appointed a non-executive director of British Airways in 2000 and served as a non-executive director of Asda Group from 1996 to 1999.

9
Jan Bennink 46, appointed 2001. President and chief executive of Numico, a leader in infant and clinical nutrition and nutritional supplements. Previous experience includes seven years with Danone as president of the dairy division, six years with Benckiser in Italy and Germany and seven years with Procter & Gamble in the Netherlands and the US.

Financial review

Group performance

During the year our aim has been to refocus on the two core businesses: Boots The Chemists and Boots Healthcare International. Our priorities have been to drive profitable top line growth while increasing investment in the future. Following the sale of Halfords we have made a significant return of £462.8m to shareholders through our share buy back programme.

This has been a year of substantial change and the financial results reflect this.

Turnover from continuing operations increased by 6.0% to £5,092.4m. This reflects the progress made in Boots The Chemists where sales increased by 5.2% and in Boots Healthcare International where sales increased by 13.0%.

Operating profit fell by 10.7% to £544.1m. This masks underlying progress in both Boots The Chemists and Boots Healthcare International but shows the effect of the investments we are making to renew our core businesses and the costs associated with exiting activities. The major elements due to their nature and material impact on profitability are: i) removing Halfords' operating profits of £22.5m in 2003 and £54.3m in 2002, following the sale of this business during the year; ii) an increase in company pension costs of £25.2m to £33.5m due to the effect of a reduction in the amortisation of the fund surplus on the SSAP24 calculation; iii) rationalisation costs of £40.2m (2002 £16.4m) in relation to the rationalisation of Boots Retail International and the closure of the Pure Beauty stores, our J Sainsbury implants and the Airdrie factory the latter reflecting the early progress of the "Getting in Shape" £100m cost programme; and iv) new investment in stores and pharmacies of £22.0m (2002 £0.8m).

Profit before tax fell 16.9% to £494.9m due to the above items and £123.2m loss on the sale of Halfords and £34.5m costs for the closure of certain of the wellbeing services offering. These are both shown as exceptional items and are partially offset by an exceptional interest credit of £92.1m arising from the closure of interest rate swaps.

Taxation Excluding non-operating exceptional items before interest, the effective tax rate for the group was 31.5%, slightly higher than last year's rate of 31.1% due to increased profits overseas which were taxed at a higher rate.

Basic earnings per share before exceptional items decreased by 9.4% to 45.2p (basic earnings per share decreased by 21.6% to 36.0p). The weighted average number of shares in issue decreased in the year from 881.6m to 838.1m as a result of the share buy back programmes.

Dividend The board has proposed a final dividend of 20.2p. This brings the total dividend for the year to 28.6p, an increase of 4.4% over last year.

Cash flow The following summary of cash flow demonstrates the company's ability consistently to generate free cash flow.

Summary of cash flows	2003 £m	2002 £m
Operating cash flows before exceptionals	**590**	752
Exceptional operating cash flows	**(8)**	(29)
Acquisition/disposal of businesses	**358**	4
Purchase of fixed assets	**(146)**	(172)
Disposal of fixed assets	**119**	62
Disposal of own shares	**3**	8
Taxation paid	**(197)**	(139)
Free cash flow	**719**	486
Repurchase of shares	**(465)**	(36)
Dividends paid	**(238)**	(235)
Net interest	**75**	41
Net cash flow	**91**	256

Free cash flow is defined as the cash flow available to all providers of capital.

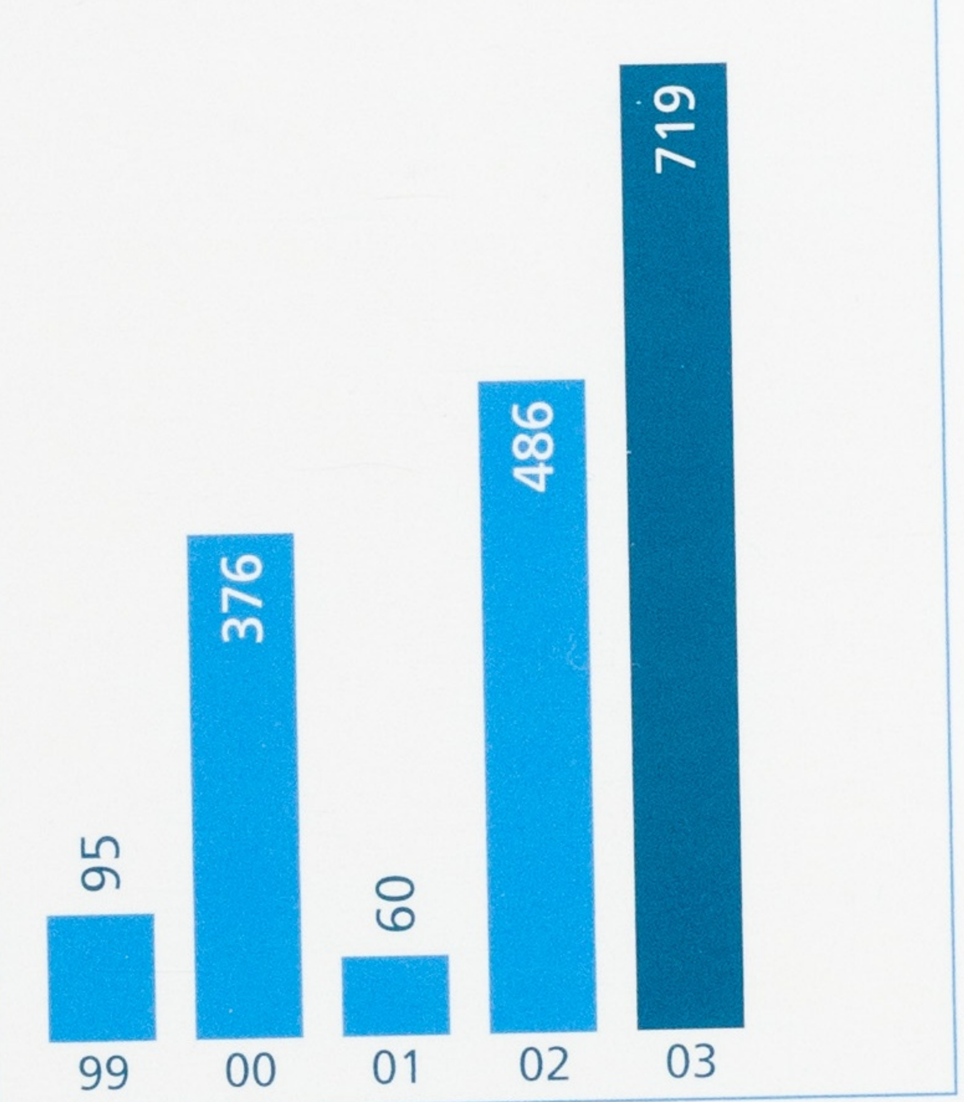
Cash flow from operating activities before exceptionals was £590.4m, a decrease of £161.3m on last year mainly arising from lower operating profit and higher stock levels.

£358.1m realised from disposals and acquisitions of businesses includes £367.6m in respect of the sale of Halfords in August 2002. The proceeds from this sale are being used to fund the current £400m share repurchase programme.

78.8m shares at a cost of £462.8m were repurchased during the year. 41.4m shares at a cost of £253.9m were

Earnings per share p
(before exceptional items)

Free cash flow £m



purchased to complete the £300m buy back programme announced in March 2002 and 37.4m shares at a cost of £208.9m were purchased as part of the current programme.

Share price Our share price fell 21.1% from 672.5p at the end of last year to 530.5p on 31st March 2003. The price ranged from a high of 725p to a low of 492p.

Whilst this fall reflects a general decline in stock market values it represents a better performance than the FTSE100 which fell by 31.5% in the same period.

Total shareholder return (TSR) of the company over the last five years compared with those of our peer companies were as follows:

Five years to 31st March 2003	%
1 Smith and Nephew	123.9
2 Alliance UniChem	24.0
3 Reckitt Benckiser	21.4
4 Tesco	13.1
5 GUS	(17.1)
6 Debenhams	(17.4)
7 Boots	**(24.0)**
8 WHSmith	(24.2)
9 Kingfisher	(35.6)
10 Marks & Spencer	(37.8)
11 J Sainsbury	(39.3)

Debenhams replaced SmithKline Beecham last year but appears as a peer company for the first time as it has completed five years as a listed company. Position seven this year is an improvement of two places compared with last year. Our five-year TSR of (24.0)% represents (5.3)% on an annualised basis. Over a ten-year period our equivalent annualised return was 5.7%.

Pensions

Following the Accounting Standards Board proposal in July 2002 to extend the transitional regime of FRS17 'Retirement Benefits', the company decided not to adopt FRS17 in the financial statements for the current year and to continue to account for pensions under SSAP24. The Boots Pension Scheme cost for the year under SSAP24 is £31m (2002 £5m).

Disclosures under FRS17 are included in note 26 to the accounts. In contrast to a number of other UK companies, this shows that the scheme has a surplus of £0.2bn on the FRS17 basis.

Treasury policy and controls

Treasury manages financial risk and ensures that enough liquidity is available to meet likely needs.

Note 19 shows further details under the disclosure requirements of FRS13 'Derivatives and Other Financial Instruments Disclosures'.

Controls seek to prevent fraud and other unauthorised transactions as well as counterparty risk. The group's risk assurance and audit staff reviews annually the effective operation of key controls. Strict guidelines for cash investment apply worldwide, with cash held only in high quality bank deposits and commercial paper. Interest rate swaps, which the company uses to manage interest rate exposure, are strictly controlled and monitored, with each transaction authorised by the chief financial officer.

Liquidity and funding The company has good access to the capital markets due to its strong credit ratings from Moody's and Standard and Poor's (A1/P1 and A+/A1). The group has credit facilities with 7 banks which mature in 2004, £462m of which remain undrawn. Short term needs are met from uncommitted bank lines.

Lease liabilities In common with other UK retailers, the group has liabilities through its obligations to pay rents under property leases. The following table shows the capitalised value of the committed after tax rents payable at 31st March 2003, excluding any likely increase in rents at rent reviews, discounted at the group's after tax long term cost of borrowing of 3.99%.

Maturity of commitment	Annual rent commitment at 31st March 2003 £m	Capitalised value £m
1 to 10 years	69.1	235.0
10 to 20 years	79.4	584.2
20 to 30 years	10.1	102.3
Over 30 years	5.6	81.5
Total	164.2	1,003.0

Interest policy is to maintain a balance between debt at fixed and floating rates, but we do not hedge against the impact of short term interest rate movements.

During the year the group reviewed its interest rate management policy and concluded that certain interest rate swaps were no longer an effective hedge to the group's liabilities. This resulted in the closure of £1,315m of interest rate swaps. The closure generated a surplus of £100.6m.

A further £200m of index linked swaps were closed out following the year end at a value marginally lower than that provided for in the balance sheet as at 31st March 2003. This along with the surplus noted above and other related items gave rise to a net credit of £92.1m for the closure of interest related swaps in the year and this is highlighted in the interest note as exceptional (note 5). 50% of the company's other fixed rate borrowings have been swapped into floating rate.

Currency exposure Modest sales and purchases are made from the UK in a range of currencies, but we do not hedge them into sterling. We have partially hedged further cash flows of the Boots Healthcare International business using US dollar ($93m) and Euro (€118m) foreign exchange swaps.

Capital structure The company has continued its policy of returning surplus capital to shareholders by repurchasing shares in the market. This amounted to £462.8m in the year to 31st March 2003.

Howard Dodd
Chief Financial Officer

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Corporate governance

The requirements of corporate governance are set out in the Financial Services Authority (FSA) Listing Rules together with the related Principles of Good Governance and Code of Best Practice (the 'Combined Code'), now adopted by the FSA.

Directors are assisted in complying with the internal control requirements of the Combined Code by the Institute of Chartered Accountants in England and Wales' publication 'Internal Control: Guidance for Directors on the Combined Code' (the 'Turnbull guidance').

The board has reviewed the group's corporate governance policies and practice and has determined that the company complied with the provisions of the Combined Code throughout the period.

Board composition

Details of the board of directors are shown on page 13 and in the directors' report on page 31. During the year there was a clear division of responsibilities at the head of the company, with Mr J B McGrath as chairman and Mr S G Russell as chief executive of the company. Mr S G Russell ceased to be chief executive on 31st May 2003, and Mr J B McGrath will act as both chairman and chief executive until 15th September 2003. On 15th September 2003 Sir Nigel Rudd will become chairman, and Mr R Baker, the new chief executive, will join the company.

The board considers all its non-executive directors to be independent. Sir Nigel Rudd is the deputy chairman and has also been identified as the senior independent non-executive director.

The board considers that an independent director is one who is independent in character and judgement and where there are no relationships or circumstances which could affect the director's judgement. Relationships or circumstances which could affect judgement include dependence on the company for his or her primary source of income or being paid by the company in any capacity other than as a non-executive director, having been previously a senior manager of the company, or having had a material relationship with the company or participating in the company's incentive bonus schemes or pension schemes.

Conduct of board meetings

The board normally has eight regular meetings in the year plus two further meetings to deal specifically with full year and half year results. Strategy meetings are convened as required. A schedule of powers reserved to the board is maintained comprising key events and decisions.

For all board meetings an agenda is established. For regular meetings this generally comprises reports from the chief executive, chief financial officer and human resources director, reports on the performance of the businesses, major items of strategic expenditure to be approved and other significant policy issues. The board is also notified of any permissions given to directors and senior managers to deal in the shares of the company under the company's dealing code. Written reports are provided to the directors in advance of the board meeting. In addition the board considers at least annually the strategic plans of the group and individual businesses and is provided with other information as requested. From time to time directors receive presentations from management about key areas of the group's operations.

Full year and interim results are reviewed by the board audit committee and approved by the board prior to publication. Other price sensitive announcements may be published under the authority of a director.

In the furtherance of their duties, the directors have full access to the services of the company secretary and may take independent professional advice, at cost to the company, subject to a limit of £25,000 and prior notification to the chairman of the audit committee.

The group has a policy of providing corporate governance training for directors on appointment, if this is their first appointment to a public limited company board.

Board committees

There are four principal board committees, all of which operate within written terms of reference. Details of the composition and the main responsibilities of these committees are as follows:

Board nominations committee

J B McGrath (chairman)
J Bennink
Dr J G S Buchanan
F M Harrison (resigned 6th November 2002)
H Ploix
Dr M P Read
Sir Nigel Rudd

The board nominations committee meets as dictated by circumstances and met once during the year.

The main responsibility of the board nominations committee is to consider and make recommendations to the board about the appointment of directors, the standing for reappointment of directors and the structure and composition of the board generally.

Board audit committee
Dr J G S Buchanan (chairman)
J Bennink
F M Harrison (resigned 6th November 2002)
H Ploix
Dr M P Read
Sir Nigel Rudd

The board audit committee met twice during the year.

The main responsibilities of the board audit committee are:
- to review and advise the board on the interim and annual financial statements.
- to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
- to review the company's systems and practices for the identification and management of risk, to set the risk assurance audit plan and to receive regular reports on internal audit matters.
- to monitor compliance with the company's policies to prevent illegal and questionable corporate conduct.
- to review the major findings of internal investigations.

The external auditors are appointed annually at the annual general meeting. The board audit committee considers the reappointment of the auditors and reports its findings to the board. The board audit committee periodically considers the performance, cost and independence of the external auditors, including a comparison of audit fees with those of other retail and FTSE100 companies and a review of the level of service provided by the audit team throughout the group. The audit committee also reviews the non-audit work carried out by the auditors to ensure that their independence is not compromised.

The audit firm may perform non-audit work for the group but only when its tender is considered superior to that of other consultants. A schedule of this non-audit work is provided annually to the board audit committee.

Board remuneration committee
Sir Nigel Rudd (chairman)
J Bennink
Dr J G S Buchanan
F M Harrison (resigned 6th November 2002)
J B McGrath
H Ploix
Dr M P Read

The board remuneration committee met six times during the year.

The committee, having no members who are executive directors or who have a personal financial interest in matters to be decided, is responsible to the board for determining, on behalf of the board, the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. A report on the remuneration of directors appears on pages 21 to 28.

Board social responsibilities committee
H Ploix (chair, appointed 26th March 2003)
J Bennink (appointed 26th March 2003)
Dr J G S Buchanan (appointed 26th March 2003)
F M Harrison (resigned 6th November 2002)
Dr M P Read
A P Smith

The board social responsibilities committee met once during the year.

The main responsibility of the board social responsibilities committee is to keep under review and advise the board on the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations, employment of the disabled and ethical matters.

Investor relations
Communications with shareholders are given a high priority. A rolling programme of meetings between institutional shareholders and executive directors is held throughout the year, and issues raised at those meetings are reported to the board, in addition to the annual and half year results presentations and the annual general meeting. In addition, a magazine for private investors is produced.

All members of the board usually attend the annual general meeting. A business presentation is given at the meeting, followed by a question and answer session. The notice of the meeting together with any related papers is sent to shareholders at least 20 working days before the meeting, or for those who have elected for electronic communication, notice is given to such shareholders of the availability of documents on the company's website. Shareholders are given the opportunity to vote on each separate issue. Postal proxy votes will be counted and summary figures are announced after the vote on show of hands on each item.

Internal control

The directors have overall responsibility for the group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives. Such a system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.

Business plans and budgets provide a framework from which performance commitments have been agreed between the chief executive and each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans.

The group has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.

Executive management are responsible for the identification, evaluation and management of the significant risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal or external sources. This continuous process has been in place for the year ended 31st March 2003 and up to the date of approval of the Annual Report and Accounts and accords with the Turnbull guidance.

Annually, businesses provide certified statements of compliance with the group's system of internal control, which are supported by assessments of key business risks, controls and resulting exposures.

The internal audit function works throughout the group to further develop, improve and embed risk management processes and tools in the business operations. It also provides assurance to the board that risk management practices address the key risks faced by the group including risks that could arise from social, environmental and ethical matters. Its work includes an assessment of the risks and controls throughout the group and its findings are reported to senior management responsible for the area concerned. Internal audit also reports regularly to the audit committee.

The audit committee assists the board in fulfilling its oversight responsibilities, primarily reviewing the reporting of financial and non-financial information to shareholders, the systems of internal control and risk management, and the audit process. The external auditors and the director of internal audit attend all meetings.

The group's system of internal control is monitored regularly by the board, its committees, the internal audit function, and management.

Social, environmental and ethical matters

The board recognises the importance of social, environmental and ethical matters to its business. Identifying and managing risks to the company's reputation has been described above and has a high priority, and the adoption and implementation of the company's code of ethical trading, described on page 11, has addressed one of the most important of them. Moreover, the company has for many years recognised the benefits that accrue from responsible employment, environmental and community policies which are also described elsewhere in this report. The evaluation of the company's performance in social, environmental and ethical matters is ongoing.

Going concern

Having considered group cash flow forecasts and strategic plans, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' remuneration report

This report has been prepared in compliance with the Directors Remuneration Report Regulations 2002 and Schedule B of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

The remuneration committee (the 'Committee')

The members of the Committee during the year were:
Sir Nigel Rudd (chairman)
J Bennink
Dr J G S Buchanan
F M Harrison (resigned 6th November 2002)
J B McGrath
H Ploix
Dr M P Read

The main responsibilities of the Committee are summarised in the corporate governance statement on page 18. The Committee appointed Towers Perrin to provide it with external advice in determining the appropriate remuneration, terms and conditions and bonus schemes for directors. Mr S G Russell, former chief executive, and Mr A P Smith, human resources director, have also advised the Committee when requested. Towers Perrin has also provided market data for executives and senior managers and consulting support in reviewing pensions and understanding current remuneration trends.

Contracts of service

The chairman, Mr J B McGrath, has an agreement with the company dated 18th May 2001 relating to his services as chairman, which is terminable by either party without notice or compensation. Mr J B McGrath will retire as chairman and from the board on 15th September 2003. None of the non-executive directors has a service contract or contract for services. Each director is required to stand for reappointment every three years and may be required to stand for reappointment at an earlier date in order to satisfy the provisions in the company's articles of association requiring not less than one third of the board to seek reappointment at each AGM. The articles of association of the company contain provisions relating to earlier vacation of office without notice and non-executive directors are not entitled to compensation for loss of office.

All executive directors' service contracts terminate when the director in question reaches the age of 60. All serving executive directors' service contracts are terminable by the company on one year's notice and the Committee has determined that one years notice is the appropriate period of notice to be given to an executive director. Exceptionally, in circumstances such as the appointment of a chief executive from outside the company, the Committee may consider an initial period of greater security to be appropriate and agree that the one year's notice should not be given before the first anniversary of appointment. The Committee has taken this view in respect of the appointment of Mr R Baker, who will join the company as chief executive on 15th September 2003.

Details of the contracts of executive directors who served during the year are as follows:

	Date of contract	Unexpired term	Notice period	Provision for compensation
P Bateman	25th July 2002	1 year rolling	1 year	Nil
B Clare*	7th April 1999	Terminated on 31st January 2003	1 year	Nil
H Dodd	4th June 2003	1 year rolling	1 year	Nil
K S Piggott**	25th July 2002	Terminated on 31st December 2002	1 year	Nil
S G Russell	25th July 2002	Terminated on 31st May 2003	1 year	Nil
A P Smith	10th April 2001	1 year rolling	1 year	Nil
D A R Thompson	1st July 1990	Terminated (at age 60) on 4th September 2002	1 year	Nil

*Resigned on 31st January 2003.
**Resigned from the board on 31st December 2002.

None of the above contracts contain provisions relating to compensation on termination and in the event of any service contract being terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate their loss where appropriate has been taken into account in determining any resulting compensation. In the case of Mr R Baker, however, the company has agreed provisions relating to pay in lieu of notice / liquidated damages under which if Mr R Baker's contract is terminated with less notice than his contract provides, then he will receive 85% of the salary, pension and short term bonus and other benefits he would have received had he been given the notice to which he was entitled under his contract, but without receiving any compensation for any loss of long term incentives or share options.

Following the announcement in December 2002 that the company was seeking to appoint a new chief executive to succeed Mr S G Russell, the Committee agreed terms with Mr S G Russell under which he would, subject to him remaining in office as chief executive until 31st July 2003, or until such earlier date as the company wished him to step down, receive his pay and benefits until 31st July 2003, and then, on leaving the company, receive £757,732 in compensation for loss of office, being the value of one year's salary, short term bonus and car allowance, and be credited with one year's additional service in his pension arrangements. He will also continue to participate in the Long Term Incentive Plan performance periods ending on or before 31st March 2004.

On 31st January 2003 Mr B Clare resigned from the boards of Boots Group PLC and of The Boots Company PLC, and received £528,000 as compensation for loss of office, being the equivalent of nine month's salary and the estimated value of other benefits that he would have received had he been given nine months' notice. Mr B Clare, and certain of his dependants, also agreed with the company to surrender their accrued entitlements under the unfunded unapproved Retirement Benefit Scheme, in which Mr B Clare had participated since he joined the company for, £1,200,000, being the sum agreed by actuaries as the value of those benefits. In addition the company met the cost of Mr B Clare receiving legal and financial advice and the cost of providing life cover for nine months equivalent to that to which he would have been entitled under the funded unapproved death benefit scheme in which he participated.

Details of the payments agreed with Mr B Clare upon termination of his contract are set out in the emoluments table on page 24.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises, and to retain the fees received.

Remuneration policies

In determining remuneration policies for the current, following and subsequent financial years, the Committee has followed the provisions of Section B of the Combined Code. Policy in relation to remuneration, and practice, inevitably evolves over time and the policy with regard to future years will be subject to ongoing review by the Committee.

Executive directors' salaries and non-executive directors' fees have been positioned at the market median in the light of independent assessment of market practices. The Committee intends that executive directors' salaries (assuming no change in responsibilities) will be increased annually in line with inflation, subject to total pay being benchmarked against the market every three years and that over time the proportion of executive directors' total remuneration that is dependent upon performance will become greater. The committee has also introduced a personal performance measure into the executive directors' short term bonus scheme, in addition to the business performance tests.

The terms of the current Long Term Incentive Plan (LTIP) and Executive Share Option Plan were approved by the shareholders of The Boots Company PLC in 2001, and at the time were designed to have a value equal to 59.8% of executive directors' base pay. The current short term bonus scheme is likely to increase the percentage of directors' total pay dependent upon performance, but using the binomial valuation model, the value of the Executive Share Option Plan has reduced by 10.2% of base pay. Based upon current estimates of the value of short and long term incentive plans and share option schemes, variable (performance based) remuneration is likely to form 49.8% of the chief executive's total remuneration and 43.6% of other executive directors' total remuneration in 2003/04.

Non-executive directors do not participate in any bonus or share option schemes.

Bonus schemes provide an opportunity for executive directors to receive additional rewards, if and only if, personal and business performance meets specified objectives and targets. The way that business performance is measured for bonus and share option schemes for executive directors flows from, and is consistent with, business strategy, and with the board's governing objective of maximising the value of the company for the benefit of shareholders and is described below.

The short term executive bonus scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans, and from 2003/04, also rewards personal performance. During 2002/03, the performance criteria were profit after tax and sales growth and a combined bonus of up to 60% of base salary was payable depending upon performance against target.

The maximum short term bonus that can be earned in 2003/04 has been increased from 60% of base salary to (in the case of the chief executive) 100%, and (for all other executive directors) 75%. In 2003/04 one third of the available bonus depends on individual performance against personal targets, and two thirds depends upon business performance targets for sales, profit and return on capital. The business targets have been chosen for their relevance in driving short term performance of the business.

The long term bonus scheme can provide executive directors with a maximum potential bonus award (MPBA) worth up to 125% of base salary, and provides a direct link between the pay of executive directors and the creation of value for shareholders by rewarding directors for the company's performance in terms of total shareholder return (TSR) over a three or four-year performance period relative to a peer group of ten other leading companies which the Committee consider to be appropriate comparators by virtue of their size and markets in which they operate. TSR was chosen as the appropriate performance measure for the LTIP as it aligns the interests of the executive with the actual return received by shareholders.

For the performance cycles which commenced in 1999 and thereafter a MPBA is calculated for all executive directors by multiplying the basic annual salary at the beginning of the cycle by a factor of 125%. The MPBA is then expressed in share units using the average share price over the previous three months. At the end of the performance cycle a percentage of the MPBA is gained based on the TSR performance against a peer group of ten other leading companies. The scale applied is:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
% of MPBA gained	100	80	64	48	36	24	Nil	Nil	Nil	Nil	Nil

The value of the award is affected by share price movement over the performance period. Performance cycles commence on 1st April. The performance cycles that commenced in 1999 and 2000 were four-year cycles. For these performance cycles, one half of the award is paid in cash after the end of each performance cycle and one half in shares. The value of the cash bonus is calculated by multiplying one half of the number of earned share units by the average share price over the last three months of the performance cycle, as derived from the Daily Official List of the London Stock Exchange. No performance cycle commenced in 2001 and the performance cycles which commenced in 2002 and thereafter are three-year cycles. For these cycles the whole of the award is payable in shares.

The peer group is reviewed before each performance cycle to maintain its relevance. For the three-year period from 1st April 2003 the relevant peer group is:

Alliance UniChem
Debenhams
Great Universal Stores
Kingfisher
Marks & Spencer
Reckitt Benckiser
J Sainsbury
Smith & Nephew
Tesco
WHSmith

Under the Executive Share Option Plan executive directors (and other employees) can be granted options to subscribe for ordinary shares in the company.

The maximum number of options that can be granted under the plan to any executive director in any financial year of the company is options having an exercise price of twice the annual basic salary of the director. Grants are not normally expected to exceed one times annual salary. Options granted to executive directors must be subject to the satisfaction of a performance condition.

The Executive Share Option Plan aligns returns to shareholders with reward to executives but only if share price growth is achieved and if a performance target is met. The value of the options is directly linked to share price movement. The condition imposed in respect of all options granted to date is average annual growth in earnings per share (EPS) over the relevant period at least equal to the increase in the index of retail prices + 3% calculated as follows: Base EPS is the EPS for the financial year preceding the performance cycle. An EPS target is calculated each year by applying the following formula: Base EPS x (100 + increase in RPI + y) where y is 3 in year one, 6 in year two and 9 in year three and so on. Target EPS for the performance cycle is determined by taking the average of the annual EPS targets during that cycle.

If the average of the actual EPS over the performance cycle equals or is greater than the target EPS, the performance condition is met. If the performance condition is not met, performance is re-tested annually until the end of the sixth year using the same methodology. If the performance condition has still not been met at the end of the sixth year, the options lapse. The EPS performance measure in the share option scheme was chosen because it provides an absolute (as opposed to relative) financial measure of company performance and complements the TSR performance measure in the LTIP. RPI is taken from the index published in March each year, and EPS is calculated in accordance with FRS14 'Earnings Per Share'.

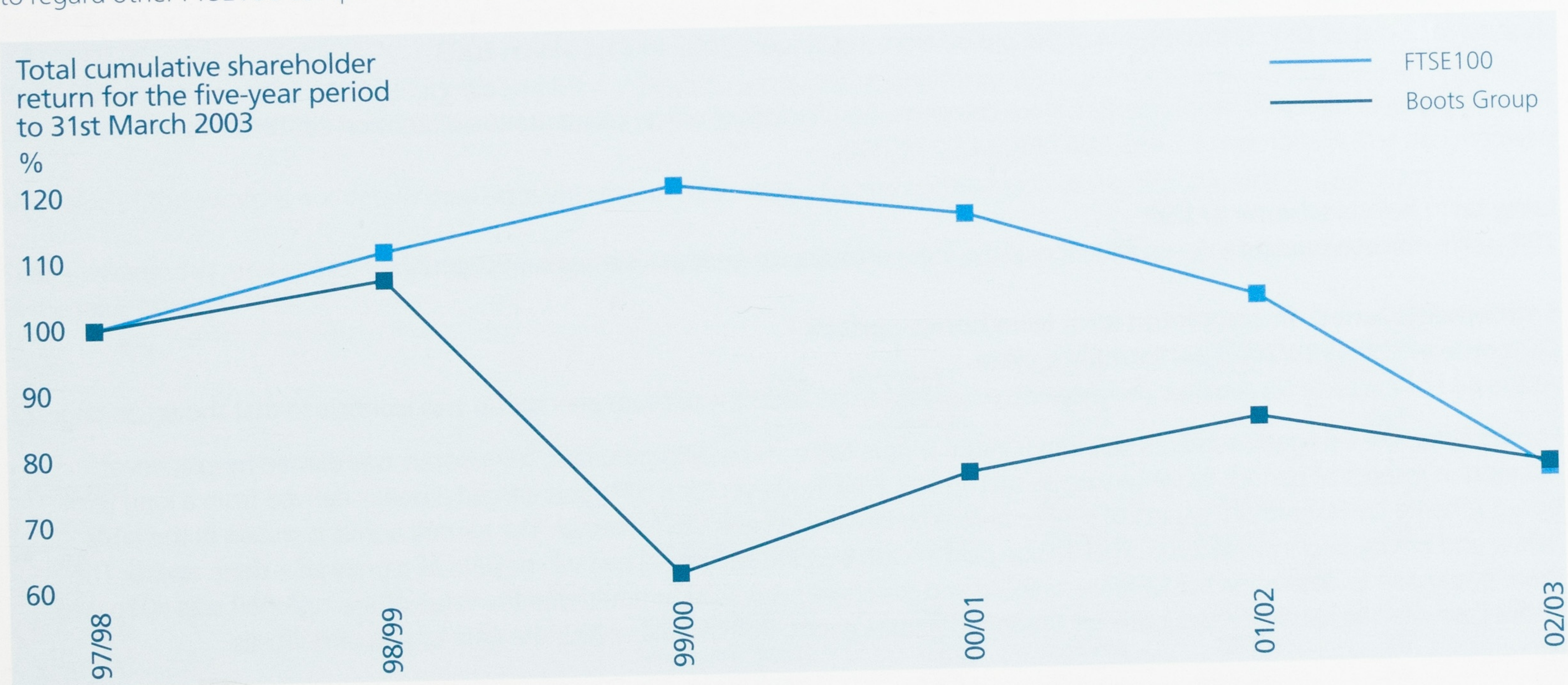
The Committee believes that share ownership provides an effective way to align the interests of shareholders and executives. For all performance periods commencing on or after 1st April 2002 the whole of an executive director's long term bonus is payable in shares of the company; the executive directors participate in a share option plan, and the Committee has adopted a policy of requiring executive directors over time to achieve a holding in the company's shares having a value equivalent to their base salary.

Share options granted under the SAYE share option scheme are not subject to performance conditions and, given the 'all employee' nature of the scheme and its revenue-approved status, it would not be appropriate to do so.

The Committee does not currently intend to propose any amendments to the executive share option or long term bonus schemes.

It is the practice of the board to maintain contact where appropriate with its major shareholders about remuneration issues.

Performance graph The following graph, required by the Directors' Remuneration Report Regulations 2002, shows the total shareholder return over the five-year period to 31st March 2003 for the company's shares and the FTSE100 index. The FTSE100 is considered to be an appropriate index for comparison as the company forms part of that index, investors in the company are likely to regard other FTSE100 companies as alternative investments, and investors are familiar with it.



Auditors' report The auditors are required to report on information contained in the following section of the report with the exception of directors' shareholdings.

Directors' remuneration 2003/04 Analysis of emoluments and short term bonuses are shown on page 24 together with payments made to Mr B Clare on termination of employment. Details of long term bonuses are shown on pages 24 to 26, outstanding share options and gains on share options are shown on pages 26 and 27, shareholdings on page 27 and pension entitlements on page 28.

Short term executive bonus scheme Performance against targets during the year was such that a bonus equal to 27% of salary was earned by executive directors. The changes made to the scheme for 2003/4 have been described on page 22.

Other benefits Executive directors are entitled to a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies. Mr P Bateman, Mr H Dodd and Mr A P Smith participate and Mr B Clare participated in a funded unapproved death benefit scheme which provides benefits on death comparable to those contained in the company's approved pension schemes in respect of income above the revenue income 'cap'. Mr J B McGrath was provided with the use of a car, driver and fuel for use when travelling on the company's business, and when travelling between his residence and the company's premises.

Analysis of directors' emoluments An analysis of directors' emoluments relating to the salary and fees, short term executive bonus and other benefits (other than share options, LTIP and pensions) for the year to 31st March 2003 is shown below:

£000	Salaries and fees	Short term bonuses	Other benefits	Compensation for loss of office	Commutation of accrued unapproved pension entitlements	Other payments on termination	Total 2003	Total 2002
P Bateman (from 1st April 2002)	260	70	25	–	–	–	355	–
J Bennink (from 10th September 2001)	32	–	–	–	–	–	32	17
Dr J G S Buchanan	34	–	–	–	–	–	34	30
B Clare (resigned 31st January 2003)	313	–	64	528*	1,200**	37***	2,142	472
H Dodd (from 1st April 2002)	350	95	1	–	–	–	446	–
F M Harrison (resigned 6th November 2002)	19	–	–	–	–	–	19	30
J B McGrath (chairman)	250	–	1	–	–	–	251	255
K S Piggott (resigned 31st December 2002)****	272	73	16	–	–	–	361	465
H Ploix	32	–	–	–	–	–	32	30
Dr M P Read	32	–	–	–	–	–	32	30
Sir Nigel Rudd (deputy chairman)	55	–	–	–	–	–	55	55
S G Russell	600	162	24	–	–	–	786	764
A P Smith	275	74	20	–	–	–	369	336
D A R Thompson (retired on 4th September 2002)	207	56	81	–	–	–	344	627
J J H Watson (retired on 31st July 2001)	–	–	–	–	–	–	–	160
	2,731	530	232	528	1,200	37	5,258	3,271

*Includes nine months ' salary in lieu of notice and £67,500 in respect of short term bonus.

**Mr B Clare and certain of his dependants surrendered their entitlements under the unfunded unapproved retirement benefit scheme, and received a total of £1.2m being the actuarial value of these benefits.

***The company also met the cost of certain legal and financial advice given to Mr B Clare.

****Mr K S Piggott remains an employee of the company and received, in addition to the sums stated in this table, a salary of £45,313 and short term bonus of £11,328 in respect of the period from 1st January 2003 to 31st March 2003.

The aggregate of directors' emoluments before compensation for loss of office, commutation of pension entitlements and other payments on termination was £3,493,000 (2002 £3,271,000).

Long term bonus scheme or LTIP

TSR performance measure An explanation of the TSR performance measure is shown on page 22.

Entitlements based on completed long term bonus periods

Outcome of the 1999/2003 performance cycle

At the end of the cycle for the four-year period up to 31st March 2003 the relevant peer group was identical to that shown on page 22.

For this cycle, the company achieved position 9 in the league table. Accordingly, no long term bonus was earned by executive directors in respect of periods while serving as such (2002 £nil). However Mr K S Piggott earned a bonus derived from a long term bonus scheme for Halfords in respect of service before he became an executive director. The earned bonus is shown in the table below and will be paid in June 2003. Half will be paid in cash and the remaining half will be paid as a grant of a share award. The share price used to determine the MPBA was 927p and the share price used to determine the value of the cash half was 602p which in this case was the average share price for the three months ended 30th August 2002, the date of sale of Halfords.

2002/03 Number of shares	MPBA	Earned Units	Share award	Cash £000
P Bateman	10,580	–	–	–
B Clare	28,991	–	–	–
H Dodd	11,799	–	–	–
K S Piggott	22,087	1,242	621	4
S G Russell	50,566	–	–	–
A P Smith	12,716	–	–	–
D A R Thompson	50,566	–	–	–
	187,305	1,242	621	4

In the previous year the bonus was calculated as a cash sum and was paid part in cash and part in shares. Details are as follows:

2001/02	Maximum Bonus £000	Earned Bonus £000	Paid in cash £000	Granted as share award No. of shares
P Bateman	–	–	–	–
B Clare	221	9	5	723
H Dodd	–	–	–	–
K S Piggott	208	30	15	2,461
S G Russell	405	–	–	–
A P Smith	124	–	–	–
D A R Thompson	370	–	–	–
	1,328	39	20	3,184

Share awards in respect of prior periods

For cycles ending in 2001/02 and earlier the entitlement to exercise the half paid as a share award was deferred, and only vested in the employee after three further years' employment. For cycles ending in 2002/03 and thereafter, share entitlements may be exercised immediately after grant for a period of twelve months.

Details of the share awards which have been granted during the year in respect of the cycle which was completed at the end of the previous financial year, and deferred share awards conditionally granted for previous cycles, are shown below. Shares that vested in the year and the cumulative total of shares outstanding at 31st March, or date of retirement are also shown below:

Number of shares	Granted 2002/03	Granted* 2001/02	Granted* 2000/01	Granted* 1999/2000	Exercised 2002/03	Cumulative total
P Bateman	–	–	–	–	–	–
B Clare	723	–	7,757	4,621	(5,344)	7,757**
H Dodd	–	–	–	–	–	–
K S Piggott	2,461	–	6,437	4,570	(7,031)	6,437
S G Russell	–	–	17,858	11,200	(11,200)	17,858
A P Smith	–	–	3,041	1,382	(1,382)	3,041
D A R Thompson	–	–	18,140	12,072	(12,072)	18,140***
	3,184	–	53,233	33,845	(37,029)	53,233

*granted on deferred basis
**date of resignation
***date of retirement (on retirement and in other circumstances approved by the Committee, share awards become exercisable immediately)

Part of Mr B Clare's and all Mr K S Piggott's and Mr A P Smith's cumulative entitlements accrued before they were appointed to the board on 1st April 1999, 1st April 2000 and 1st April 2001 respectively

The value of the award is not determined until the vesting date, which for the entitlements granted in 2000/01 is June 2003.

Shares awarded in respect of prior periods have vested and been exercised in the year as shown above and the value of these is shown in the table below:

	Date interest awarded	Share value at date of award	Share value at vesting 2003	Share value at exercise 2003	Value received 2003 £000	Value received 2002 £000
P Bateman					–	–
B Clare	1st April 1998	957p	624.5p	568p	4	
B Clare	1st April 1995	509p	684.5p	617.5p	29	19
H Dodd					–	–
K S Piggott	1st April 1998	957p	624.5p	590p	15	
K S Piggott	1st April 1995	509p	684.5p	625p	29	19
S G Russell	1st April 1995	957p	684.5p	653.5p	73	45
A P Smith	1st July 1997	703.5p	684.5p	625p	9	–
D A R Thompson	1st April 1995	957p	684.5p	625p	75	50
					234	133

Performance conditions are described on page 22. The value of the shares received is based on the middle market price on the date of exercise of the share awards, and is the value upon which liability to income tax and National Insurance is calculated.

During the year Mr M F Ruddell and Mr J J H Watson, both former directors of The Boots Company PLC, exercised share awards valued at £59,413 and £109,863 respectively. The share awards were granted under the long term bonus scheme prior to their retirement.

Potential entitlements under incomplete long term bonus periods

The MPBA (in shares) for cycles which commenced on 1st April 2000 and 1st April 2002 are shown below:

	MPBA At 31/03/02 2000-2004	MPBA Awarded in year 2002-2005	Total
P Bateman	32,395	51,424	**83,819**
H Dodd	42,476	69,225	**111,701**
K S Piggott	72,816	71,697	**144,513**
S G Russell	121,359	118,671	**240,030**
A P Smith	38,653	54,391	**93,044**
	307,699	365,408	**673,107**

The share price used to calculate the 2000-2004 and 2002-2005 MPBA's was 515p and 632p respectively. The outcome for these cycles and the related share awards will not be determined until June 2004 and June 2005 respectively. The share prices when the awards were first made were 537p on 1st April 2000 and 672.5p on 1st April 2002. Performance conditions are set out on page 22.

Share Options

The Executive Share Option Plan An explanation of the way the plan operates is shown on pages 22 and 23.

The exercise price of options granted under the scheme is the average of the market value of the shares in the three days preceding the grant of an option. The rules of the plan allow the exercise of options in the period between 3 and 10 years from grant, subject to prior satisfaction of any performance condition stipulated at the time of grant. Upon exercise, the benefit received by the participant is derived from the increase in the market value of the company's shares in the period between grant and exercise. Gains arising from the exercise of share options are set out below. Executive share options may be exercised following termination of employment by reason of redundancy or retirement or in such other circumstances of termination of employment as the Committee approves, before the expiry of the initial three-year period subject to satisfaction of the performance conditions over the shorter period.

Options have been granted as follows:

Number of shares	2001/02 Awarded on 12/09/01 Option price 630p Exercisable between 12/09/04 and 11/09/11	**2002/03 Awarded on 18/06/02 Option price 635p Exercisable between 18/06/05 and 17/06/12**	Total
P Bateman	26,428	**40,944**	**67,372**
B Clare	55,555	**59,055**	**114,610**
H Dodd	–	**55,118**	**55,118**
K S Piggott	55,555	**57,086**	**112,641**
S G Russell	91,269	**94,488**	**185,757**
A P Smith	39,682	**43,307**	**82,989**
D A R Thompson	74,603	**75,590**	**150,193**

All options are subject to the performance conditions set out on page 23.

The Boots SAYE Share Option Scheme

Under a savings-related scheme options may be offered to employees, including executive directors, enabling employees to subscribe for ordinary shares in the company at approximately 80% of the market price of those shares at the date of grant, subject to participation in a designated savings scheme. No options have been granted since July 1999, but certain executive directors hold options under that scheme as follows:

		At 31 March 2002	Awarded	Exercised	Lapsed	At 31 March 2003	Exercise price	Earliest date of exercise	Expiry date
B Clare	@485p	**3,216**	–	–	**3,216**	–	–	–	–
K S Piggott	@588p	**1,173**	–	–	**1,173**	–	–	–	–
K S Piggott	@808p	**341**	–	–	–	**341**	–	**01/09/03**	**29/02/04**
K S Piggott	@624p	**324**	–	–	–	**324**	–	**01/10/04**	**31/03/05**
S G Russell	@624p	**2,704**	–	–	–	**2,704**	–	**01/10/04**	**31/03/05**
A P Smith	@624p	**1,552**	–	–	**1,552**	–	–	–	–
D A R Thompson	@588p	**1,760**	–	–	**1,760**	–	–	–	–

The market price of the company's shares at 31st March 2003 was 530.5p and the range of market prices during the year was 492p to 725p.

Directors' interests in share options on 26th May 2003 remain unchanged.

Gains on share options

Gains on share options represent the number of shares under options which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

The total gains on share options exercised during the year was £nil (2002 £3,000).

All Employee Share Ownership Plan (AESOP)

In the period to 31st March 2001 Boots established an AESOP to enable staff, including executive directors, to become shareholders in the company. Under the free share part of the plan, the executive directors were each given the opportunity to be awarded 39 shares (42 in 2001), the same number as any employee with average contracted hours of 35 or more per week. All the eligible executive directors except for Mr D A R Thompson opted to receive this award. Mr P Bateman and Mr H Dodd were not eligible as they had not completed 12 months' service. Shares in this part of the AESOP must normally be held in trust on behalf of the employees for at least three years.

In the period to 31st March 2002 Boots implemented the partnership share element of the plan, giving employees including executive directors the opportunity to purchase shares from their pre-tax income, subject to a maximum of £125 per month, with effect from April 2002. Shares purchased under the partnership plan are included in total shareholdings in the table below.

Directors' shareholdings

The beneficial interests of the directors in office at 31st March 2003 and their families in the share capital of the company at 31st March 2003 are shown below. The company's register of directors' interests, which is open to inspection, contains full details of directors' interests in the company's shares.

Shareholdings	Ordinary shares 2003	Ordinary shares 2002
P Bateman	**173**	–*
J Bennink	**–**	–
Dr J G S Buchanan	**2,000**	2,000
H Dodd	**1,000**	–*
J B McGrath	**2,979**	2,839
H Ploix	**1,697**	1,619
Dr M P Read	**3,500**	3,500
Sir Nigel Rudd	**2,000**	2,000
S G Russell	**67,321**	60,612
A P Smith	**3,806**	998

*at date of appointment

Included within the ordinary shares held are 193 shares purchased by Mr A P Smith under the AESOP Share Investment Plan.

Each executive director was also deemed, as a potential beneficiary, to have an interest in the 1,423,769 (2002 1,776,677) ordinary shares of the company held by Boots ESOP Trust Ltd, on behalf of Boots Employee Trust, established to facilitate the operation of the company's executive bonus schemes and in 12,959,693 (2002 14,878,241) ordinary shares of the company held by Boots (QUEST) Trustee Limited, on behalf of Boots Qualifying Employee Share Trust, established in connection with the company's UK all-employee SAYE Share Option Scheme and in 2,465,201 (2002 1,574,156) ordinary shares of the company held by Boots Share Plan Trustees Limited, established to hold shares for employees in connection with The Boots Company All Employee Share Ownership Plan 2000 (the AESOP). No director holds any loan capital.

The personal shareholdings of directors in office at 31st March 2003 remain unchanged on 26th May 2003, other than each of Mr P Bateman, Mr H Dodd and Mr A P Smith now hold a further 21 shares purchased under the partnership share element of the AESOP, and the number of shares held by Boots (QUEST) Trustee Limited, the Boots ESOP Trust Ltd and the Boots Share Plan Trustees have reduced, thereby reducing directors' deemed interest.

Pension entitlement

All executive directors in office at 31st March 2003 receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 26, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary at normal retirement age, subject to completing 20 years service. Non-executive directors are not members of any company pension arrangements. Pension entitlement is calculated only on the salary element of remuneration.

Those directors who are subject to the earnings cap are also members of an unfunded unapproved pension arrangement which provides similar benefits on basic salary in excess of the earnings cap.

Details of pensions earned by the executive directors in office at 31st March 2003 or at date of retirement are shown below:

£000	Accrued pension at 31 March 2003	Increase in pension during the year to 31st March 2003 gross of inflation	Increase in pension during the year to 31st March 2003 net of inflation	Transfer value of accrued benefits at 31st March 2002	Transfer value of accrued benefits at 31st March 2003	Increase in transfer value of benefits less directors' contributions	Transfer value of net-of-inflation increase in accrued benefits less directors' contributions
P Bateman	21	13	13	96	295	187	175
B Clare	38	3	2	1,425	584	82	18
H Dodd	9	9	9	–	98	83	83
K S Piggott	203	13	10	2,933	3,446	498	154
S G Russell	377	27	21	5,936	7,009	1,045	370
A P Smith	42	10	8	344	504	147	88
D A R Thompson	316	7	2	5,605	6,085	470	22

The total accrued pension entitlement for Mr S G Russell, the highest paid director, at 31st March 2002 was £349,000.

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. Retained benefits from previous employments are taken into account. The increase in accrued pension during the year is after deducting the increase due to inflation, at the rate of 1.7%, on the previous year's accrued pension. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

Mr B Clare left the company on 31st January 2003 taking a deferred pension in respect of his approved benefits. A payment of £1.2m was made to him and his dependants in lieu of benefits they had accrued in the unapproved arrangement. The figures at 31st March 2003 relate to approved scheme benefits only.

The year end figures for Mr D A R Thompson are as at 4th September 2002, his date of retirement.

By order of the board
Sir Nigel Rudd
Chairman of the Board remuneration committee
4th June 2003

Directors' responsibilities statement

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss of the group for that period. In preparing those financial statements, directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the members of Boots Group PLC

We have audited the financial statements on pages 33 to 63. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made soley to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 29, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 18 to 20 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham
4th June 2003

Directors' report

The directors of Boots Group PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 2003.

Capital reorganisation

During the year a new group holding company was interposed between The Boots Company PLC and its shareholders through a scheme of arrangement (see share capital below). This was effective from 20th January 2003. References throughout the annual report and financial statements to the 'company' refer to Boots Group PLC from 20th January 2003 onwards and prior to that to The Boots Company PLC. The balance sheet and balance sheet items at 31st March 2003 relate to Boots Group PLC.

Principal activities

The group's principal activities during the year were:
- retailing of chemists' merchandise.
- the provision of opticians' and other healthcare services.
- the development, manufacture and marketing of healthcare and consumer products.

As explained below, the group completed the sale of its autoparts retailer on 30th August 2002.

Further information on the group's continuing activities is provided in the review of operations on pages 5 to 10.

Business review and future developments

A review of group activities during the year, research and development, and likely future developments are dealt with in the chairman's statement, chief executive's review and review of operations on pages 1 to 10.

Group results

The group profit and loss account for 2003 shown on page 33 includes the following details:

	2003 £m	2002 £m
Turnover (including share of joint ventures)	**5,327.3**	5,332.2
Profit on ordinary activities before exceptional items and taxation	**555.4**	638.7
Profit on ordinary activities before taxation	**494.9**	595.8

Appropriations

The directors recommend the payment of a final dividend of 20.2p per share which, if approved by shareholders, will be paid on 22nd August 2003 to shareholders registered on 20th June 2003. When added to the interim dividend of 8.4p paid on 7th February 2003, this makes a total dividend payment for the year of 28.6p per share (2002 27.4p per share). Payment of these dividends requires £230.7m (2002 £240.6m), leaving a profit of £71.0m (2002 £163.7m) retained in the business.

Group structure and operations

On 30th August 2002 Boots completed the sale of Halfords to CVC Capital Partners.

On 1st October 2002 Boots announced a major IT outsourcing contract with IBM.

On 7th November 2002 Boots announced it had agreed to acquire Granada's 40% stake in Digital Wellbeing Limited.

On 3rd February 2003 Boots and Sainsbury's announced the ending of their 'store within a store' trial.

On 4th February 2003 Boots announced the proposed closure of the Airdrie factory in Lanarkshire.

On 27th March 2003 Boots announced the withdrawal from certain wellbeing services and the closure or rationalisation of the European and Asia Pacific operations of Boots Retail International.

Share capital

Details of changes in the share capital are shown in note 22 to the financial statements.

Effective from 20th January 2003 the company acquired 100% of the issued share capital of The Boots Company PLC following implementation of a scheme of arrangement under section 425 of the Companies Act 1985. Under the scheme Boots Group PLC acquired all the shares of The Boots Company PLC and in consideration issued to shareholders one Boots Group PLC share for every one share held in The Boots Company PLC. Further details of this are given in note 22 to the financial statements.

At the annual general meeting of The Boots Company PLC on 25th July 2002 and an extraordinary general meeting of Boots Group PLC on 31st October 2002, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each.

During the year the company entered the market and purchased 78.8 million shares which have subsequently been cancelled. This represented 9.7% of the shares in issue at the end of the period and the total cost was £462.8m.

At the forthcoming annual general meeting on 24th July 2003, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 81.4 million ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be no more than 5% above the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

Details of shares held by Boots Qualifying Employee Share Trust, Boots All Employee Share Ownership Plan and Boots ESOP Trust are shown in note 12 to the financial statements.

Shareholders

As at 4th June 2003 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that Legal & General Investment Management holds 3.00% of the issued ordinary share capital of the company and Lazard Freres & Co holds 3.00% of the issued ordinary share capital of the company.

Fixed assets

The directors are of the opinion that the market value of the group's properties at 31st March 2003 is 21.8% higher than that stated in the financial statements. It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation gains on properties used for the purpose of the group's trade are expected to be deferred indefinitely or eliminated by capital losses.

Payment of suppliers

The group is a signatory of the Better Payment Practice Code (a copy of the code is available from www.payontime.co.uk). It is the policy of the group to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days' purchases outstanding for the group's UK operations at 31st March 2003 was 23 (2002 27 days). The company has no trade creditors.

Staff

The group continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives as well as a retired employee. The group's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The group does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Charitable and political donations

Cash donations for charitable and educational purposes in the UK for the year were £3.1m (2002 £2.1m). The company made no political payments in the accepted sense. However, it did permit employees time off work with pay to carry out their duties as local government councillors, and the company is advised that by so doing it may be considered to have incurred EU political expenditure or have made an EU political donation within the meaning of those terms in the Political Parties Elections and Referendum Act 2000. Further information on community investment is shown on page 12.

Directors

Details of directors are shown on page 13. Mr D A R Thompson was a director of The Boots Company PLC until his retirement from the board on 4th September 2002 and Mr B Clare was a director of The Boots Company PLC and of Boots Group PLC until his resignation on 31st January 2003. Ms F M Harrison was a director of The Boots Company PLC until her resignation on 6th November 2002 and Mr K S Piggott was a director of The Boots Company PLC until his resignation on 31st December 2002. Mr S G Russell ceased to be a director of Boots Group PLC on 31st May 2003, and Dr J G S Buchanan is not standing for reappointment.

As part of the capital reorganisation a new company, Halfords Group PLC, was incorporated on 31st May 2002, the name of which was changed on 11th October 2002 to Boots Group PLC – details of the share capital are set out in note 22 to the accounts. The original directors were Mr M J Oliver and Ms S Fennell who resigned on 5th November 2002 and were replaced by the continuing directors of The Boots Company PLC. They did not receive any reward for their services as directors.

All the current directors were appointed during the year and accordingly will retire at the annual general meeting in accordance with Article 88 and, other than Dr J G S Buchanan, offer themselves for reappointment.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 2003 are shown in the directors' remuneration report on pages 21 to 28.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
M J Oliver
Secretary
4th June 2003

Group profit and loss account

For the year ended 31st March 2003	Notes	2003 £m	2002 £m
Turnover			
Turnover from continuing operations		**5,092.4**	4,803.7
Discontinued operation		**234.9**	528.5
Turnover: group and share of joint ventures	1	**5,327.3**	5,332.2
Less: share of joint ventures' turnover		**(2.1)**	(3.9)
Group turnover		**5,325.2**	5,328.3
Operating profit			
Operating profit from continuing operations*		**534.8**	575.7
Discontinued operation		**22.5**	54.3
Group operating profit		**557.3**	630.0
Share of operating loss of joint ventures		**(13.2)**	(20.9)
Total operating profit including share of joint ventures	2	**544.1**	609.1
Profit/(loss) on disposal of fixed assets	3	**5.1**	(6.0)
Provision for loss on closure of operations	3	**(34.5)**	–
Loss on disposal of businesses	3	**(123.2)**	(14.9)
Share of joint venture loss on closure of business	3	**–**	(5.6)
Profit on ordinary activities before interest	1	**391.5**	582.6
Net interest receivable and similar items*	5	**103.4**	13.2
Profit on ordinary activities before taxation		**494.9**	595.8
Tax on profit on ordinary activities	6	**(192.7)**	(191.2)
Profit on ordinary activities after taxation		**302.2**	404.6
Equity minority interests		**(0.5)**	(0.3)
Profit for the financial year attributable to shareholders		**301.7**	404.3
Dividends paid and proposed	8	**(230.7)**	(240.6)
Retained profit for the financial year	21	**71.0**	163.7

*Includes exceptional items (see notes 3 and 5)

Basic earnings per share	9	**36.0p**	45.9p
Basic earnings per share before exceptionals	9	**45.2p**	49.9p
Diluted earnings per share	9	**35.9p**	45.8p
Diluted earnings per share before exceptionals	9	**45.1p**	49.8p

Other primary statements of the group

Statement of total recognised gains and losses For the year ended 31st March 2003	2003 £m	2002 £m
Profit for the financial year attributable to shareholders	**301.7**	404.3
Revaluation of investment properties	**17.1**	1.5
Currency translation differences on foreign currency net investments	**7.5**	(3.0)
Total recognised gains and losses for the year	**326.3**	402.8

Currency translation differences include tax of £(0.3)m (2002 £(4.8)m).

Currency translation differences are net of gains or losses on currency hedges of £(2.0)m (2002 £(0.7)m) and associated tax credit of £nil (2002 £0.1m).

Note on historical cost profits and losses For the year ended 31st March 2003	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	**494.9**	595.8
Realisation of property revaluation surpluses	**10.2**	0.7
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	**1.0**	2.2
Historical cost profit on ordinary activities before taxation	**506.1**	598.7
Historical cost profit retained	**82.2**	166.6

Reconciliation of movements in shareholders' funds For the year ended 31st March 2003	2003 £m	2002 £m
Total recognised gains and losses for the year	**326.3**	402.8
Dividends	**(230.7)**	(240.6)
New share capital issued (net of expenses)	**(0.3)**	0.7
Repurchase of shares	**(462.8)**	(45.9)
Goodwill released on disposal of businesses	**349.3**	22.4
Net (decrease)/increase in shareholders' funds	**(18.2)**	139.4
Opening shareholders' funds	**2,017.6**	1,878.2
Closing shareholders' funds	**1,999.4**	2,017.6

Balance sheets

31st March 2003	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m
Fixed assets				
Intangible assets	10	**301.3**	298.2	–
Tangible assets	11	**1,516.5**	1,727.7	–
Investment in joint ventures – share of gross assets		–	23.0	–
– share of gross liabilities		–	(5.0)	–
	12	–	18.0	–
Other investments	12	**84.7**	103.7	**1,387.4**
		1,902.5	2,147.6	**1,387.4**
Current assets				
Stocks	13	**638.6**	648.1	–
Debtors falling due within one year	14	**536.6**	550.0	**4.6**
Debtors falling due after more than one year	14	**114.0**	96.1	–
Current asset investments and deposits	15	**293.1**	308.7	**275.0**
Cash at bank and in hand		**203.4**	100.4	**24.5**
		1,785.7	1,703.3	**304.1**
Creditors: Amounts falling due within one year	16	**(1,112.7)**	(1,174.7)	**(175.1)**
Net current assets		**673.0**	528.6	**129.0**
Total assets less current liabilities		**2,575.5**	2,676.2	**1,516.4**
Creditors: Amounts falling due after more than one year	17	**(401.8)**	(480.0)	**(315.0)**
Provisions for liabilities and charges	20	**(173.8)**	(177.9)	–
Net assets		**1,999.9**	2,018.3	**1,201.4**
Capital and reserves				
Called up share capital	21, 22	**203.5**	223.2	**203.5**
Share premium account	21	–	253.9	–
Revaluation reserve	21	**260.3**	254.4	–
Capital redemption reserve	21	**5.6**	42.6	**5.6**
Merger reserve	21	**310.8**	–	–
Profit and loss account	21	**1,219.2**	1,243.5	**992.3**
Equity shareholders' funds		**1,999.4**	2,017.6	**1,201.4**
Equity minority interests		**0.5**	0.6	–
Non-equity minority interests		–	0.1	–
		1,999.9	2,018.3	**1,201.4**

There are no comparatives for the 2003 company balance sheet as the company only came into existence on 31st May 2002 (see Accounting policy – consolidation).

The financial statements were approved by the board of directors on 4th June 2003 and are signed on its behalf by:

John McGrath
Chairman

Howard Dodd
Chief Financial Officer

Group cash flow information

Group cash flow statement
For the year ended 31st March 2003

	Notes	2003 £m	2002 £m
Cash inflow from operating activities	23	**582.3**	722.4
Returns on investment and servicing of finance			
Interest paid		**(16.1)**	(58.6)
Interest received*		**91.9**	99.5
Dividends paid by subsidiaries to minority interests		**(0.8)**	(0.2)
		75.0	40.7
Taxation		**(196.7)**	(139.2)
Capital expenditure and financial investment			
Purchase of fixed assets		**(145.8)**	(172.1)
Disposal of fixed assets		**118.6**	62.2
Disposal of own shares		**3.1**	7.7
		(24.1)	(102.2)
Acquisitions and disposals	4	**358.1**	3.9
Equity dividends paid		**(238.3)**	(234.5)
Cash inflow before use of liquid resources and financing		**556.3**	291.1
Management of liquid resources			
Decrease/(increase) in short term deposits		**15.8**	(234.3)
Financing			
Capital element of finance lease rental agreements		**(8.1)**	(7.9)
Decrease in other borrowings		**(37.9)**	(12.1)
Cash outflow from change in borrowings and lease financing		**(46.0)**	(20.0)
Issue of ordinary share capital (net of expenses)		**(0.3)**	0.7
Repurchase of shares		**(465.5)**	(35.9)
		(511.8)	(55.2)
Increase in cash in the year		**60.3**	1.6

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

*Including exceptional interest received of £53.8m. In addition £46.8m was received in 2002 in relation to this item.

Reconciliation of net cash flow to movement in net debt
For the year ended 31st March 2003

	Notes	2003 £m	2002 £m
Increase in cash in the year		**60.3**	1.6
Cash (inflow)/outflow from change in liquid resources	24	**(15.8)**	234.3
Cash outflow from change in borrowings and lease financing	24	**46.0**	20.0
Movement in net debt resulting from cash flows		**90.5**	255.9
Finance lease additions		**(1.8)**	(11.6)
Increase in value of investment in 10.125% bond 2017		**5.8**	21.9
Currency and other non-cash adjustments		**0.3**	(2.3)
Movement in net debt during the year		**94.8**	263.9
Opening net debt		**(146.3)**	(410.2)
Closing net debt	24	**(51.5)**	(146.3)

Net debt comprises cash, liquid resources, finance leases and all other borrowings.

Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group and company financial statements except as noted below.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain land and buildings. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11 to the financial statements.

A separate profit and loss account for the company has not been presented as permitted by section 230 of the Companies Act 1985.

In May 2002, the group signalled that following the reorganisation to create a more integrated business, it would use a new segmental analysis to present its financial results. Restated figures on the revised segmental basis are shown in note 1 to the financial statements.

Consolidation

The group financial statements combine the results of the company and all its subsidiaries and joint ventures, to the extent of group ownership and after eliminating intra-group transactions.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest and are jointly controlled. The group's share of the results of joint ventures, which are accounted for under the gross equity method, are included in the profit and loss account and its share of their net assets is included in investments in the group balance sheet.

In the company balance sheet, investments in subsidiaries and joint ventures are stated at cost (being the par value of shares issued where merger relief applies) less impairments.

During the year Boots Group PLC (formerly Halfords Group PLC) was introduced as the new holding company of the Boots Group by way of a Scheme of Arrangement under section 425 of the Companies Act 1985. This has been accounted for as a capital reorganisation and merger accounting principles have been applied, as if the company had always been the holding company of the group.

Foreign currencies

The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

All other exchange differences are dealt with in the profit and loss account.

The cost of the company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made, except where hedge accounting applies in which case the year end rate is used.

Goodwill and intangible assets

Goodwill on acquisitions comprises the excess of the fair value of the consideration for investments in subsidiary undertakings and joint ventures over the fair value of net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. On disposal of such businesses, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, generally not exceeding 20 years.

The cost of intangible assets acquired (which are capitalised only if separately identifiable) is not amortised except where the end of the useful economic lives of the acquired intangible asset can be reasonably foreseen. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is provided to write off the cost or valuation, less residual value, by equal instalments over their expected useful economic lives as follows:

- Freehold land, investment properties, assets in the course of construction – not depreciated
- Freehold and long leasehold buildings, including shops with physical lives of more than 50 years – depreciated to their estimated residual values over their useful economic lives of not more than 50 years
- Short leasehold properties – remaining period of lease when less than 50 years
- Computer equipment including software – 3 to 8 years
- Motor cars – 4 or 5 years
- Other motor vehicles – 3 to 10 years
- Fixtures and plant – 3 to 20 years

Any impairment in the value of fixed assets is recognised immediately.

The company adopted the transitional provisions of FRS15 'Tangible Fixed Assets' to retain the book value of land and buildings many of which were last revalued in 1993 and has not adopted a policy of annual revaluations for the future.

Investment properties are revalued annually and included in the balance sheet at their open market value (adjusted to exclude the benefit of formal lease arrangements with group companies).

To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Interest is capitalised on tangible fixed assets in the course of construction or development. The capitalisation rate applied depends on whether the construction is financed by a specific borrowing (based on actual interest rate) or whether it is financed by general borrowings (based on the weighted average rate on all non-specific borrowings).

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money managed funds.

Derivative financial instruments

During the year the group reviewed its accounting policy for hedging instruments. The effect of adopting the new policy on the current and prior year is shown in note 5. The new policy is as follows:

Where the group holds financial instruments as a hedge against interest rate exposure and the hedge is effective, gains and losses on the derivative are recognised in the same reporting statement and the same period as changes in the value of cash flows of the hedged item. If a hedging instrument is sold, terminated or exercised, the resulting gain or loss is recognised in full in the period in which it is sold, terminated or exercised only if the group no longer has the related hedged item.

Where financial instruments are held which are not hedges, provision is made in full for all anticipated losses, and profits are recognised when realised in both cash and in economic terms.

Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development

Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pensions

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases

The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases (being leases which give rights to the group approximating to ownership) is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date except as allowed by FRS19 'Deferred Tax' as detailed below. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and joint ventures as there is no commitment to remit these profits. It is not anticipated that any significant taxation will become payable on the revaluation surplus or sale of properties, as taxation on gains on properties used for the purpose of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

Notes relating to the financial statements

1 Segmental information

(i) Turnover by business segment

	Notes	2003 £m	2002 £m
Health		**1,716.4**	1,633.5
Beauty and Toiletries		**1,891.9**	1,770.9
Other		**676.1**	667.7
Boots The Chemists		**4,284.4**	4,072.1
Wellbeing Services		**262.5**	231.0
		4,546.9	4,303.1
Boots Healthcare International	a	**430.1**	385.5
Boots Retail International	b	**35.6**	40.3
Group and other	c	**79.8**	74.8
Continuing operations		**5,092.4**	4,803.7
Discontinued operation – Halfords		**234.9**	528.5
Turnover: group and share of joint ventures		**5,327.3**	5,332.2

a Boots Healthcare International also made inter-segmental sales of £30.3m (2002 £21.8m).
b Boots Retail International also made inter-segmental sales of £1.4m (2002 £nil).
c Group and other includes Boots Manufacturing third party sales of £68.1m (2002 £65.3m).

(ii) Turnover by geographical segment

	Origin 2003 £m	Origin 2002 £m	Destination 2003 £m	Destination 2002 £m
UK	**4,952.5**	4,955.3	**4,823.5**	4,868.9
Rest of Europe	**304.7**	279.1	**329.0**	304.0
Rest of World	**158.1**	141.6	**174.8**	159.3
Inter-segmental	**(88.0)**	(43.8)	**–**	–
	5,327.3	5,332.2	**5,327.3**	5,332.2

Included in the UK is turnover of £234.9m (2002 £528.5m) from discontinued operation – Halfords.

(iii) Profit before interest by business segment

	Notes	Before exceptional items 2003 £m	Total 2003 £m	Before exceptional items 2002 £m	Total 2002 £m
Boots The Chemists		**568.6**	**566.6**	605.2	579.9
Wellbeing Services	a	**(28.6)**	**(64.0)**	(33.1)	(33.1)
		540.0	**502.6**	572.1	546.8
Boots Healthcare International		**70.1**	**70.1**	66.7	56.5
Boots Retail International		**(22.3)**	**(22.3)**	(24.1)	(35.3)
Group and other	b	**(66.2)**	**(58.2)**	(43.5)	(43.6)
Continuing operations		**521.6**	**492.2**	571.2	524.4
Discontinued operation – Halfords		**22.5**	**(100.7)**	54.3	58.2
Profit before interest		**544.1**	**391.5**	625.5	582.6

a Boots The Chemists includes Digital Wellbeing Limited (DWL) operating loss of £14.7m. This includes share of joint venture loss of £11.8m (2002 £16.9m) which reflects DWL impairment of fixed assets amounting to £6.5m (2002 £nil). The comparative period also includes for the period up to 30th September 2001 bootsphoto.com losses of £17.3m, £10.4m of which was operating exceptional.
b Group and other includes £12.0m costs of rationalising the group's manufacturing facilities.

For an analysis of exceptional items see note 3 .

1 Segmental information continued

(iv) Profit before interest by geographical origin

	Before exceptional items 2003 £m	Total 2003 £m	Before exceptional items 2002 £m	Total 2002 £m
UK	**462.4**	**309.8**	571.1	549.6
Rest of Europe	**65.5**	**65.5**	41.8	31.6
Rest of World	**16.2**	**16.2**	12.6	1.4
Total operating profit	**544.1**	**391.5**	625.5	582.6

Included in the UK is operating profit of £22.5m (2002 £54.3m) from discontinued operation – Halfords.

(v) Net assets by business segment

	2003 £m	2002 £m
Boots The Chemists	**1,811.1**	1,714.4
Wellbeing Services	**104.5**	105.0
	1,915.6	1,819.4
Boots Healthcare International	**418.3**	388.6
Boots Retail International	**17.6**	26.2
Other	**85.7**	111.6
Continuing operations	**2,437.2**	2,345.8
Discontinued operation – Halfords	**–**	197.1
Net operating assets	**2,437.2**	2,542.9
Unallocated net liabilities	**(437.3)**	(524.6)
	1,999.9	2,018.3

Net operating assets include intangible and tangible fixed assets, investment in joint ventures, stocks, third party debtors and creditors. Unallocated net liabilities includes own shares, all taxation balances, dividend creditors and net debt.

(vi) Net operating assets by geographical segment

	2003 £m	2002 £m
UK	**2,061.0**	2,225.1
Rest of Europe	**219.6**	183.3
Rest of World	**156.6**	134.5
	2,437.2	2,542.9

Included in the UK are net operating assets of £nil (2002 £197.1m) from discontinued operation – Halfords.

2 Total operating profit	Continuing operations 2003 £m	Discontinued operation 2003 £m	Total 2003 £m	Continuing operations 2002 £m	Discontinued operation 2002 £m	Total 2002 £m
Group turnover	**5,090.3**	**234.9**	**5,325.2**	4,799.8	528.5	5,328.3
Cost of sales	**(2,724.3)**	**(121.7)**	**(2,846.0)**	(2,535.4)	(252.2)	(2,787.6)
Gross profit	**2,366.0**	**113.2**	**2,479.2**	2,264.4	276.3	2,540.7
Selling, distribution and store costs	**(1,475.3)**	**(77.1)**	**(1,552.4)**	(1,336.5)	(193.1)	(1,529.6)
Research and development costs	**(25.7)**	**–**	**(25.7)**	(27.4)	–	(27.4)
Administrative expenses	**(330.2)**	**(13.6)**	**(343.8)**	(324.8)	(28.9)	(353.7)
Group operating profit	**534.8**	**22.5**	**557.3**	575.7	54.3	630.0
Share of operating loss of joint ventures	**(13.2)**	**–**	**(13.2)**	(20.9)	–	(20.9)
Total operating profit including share of joint ventures	**521.6**	**22.5**	**544.1**	554.8	54.3	609.1
Total operating profit before exceptional items	**521.6**	**22.5**	**544.1**	571.2	54.3	625.5

There have been no significant acquisitions during 2003.
Selling, distribution and store costs for continuing operations in 2002 included an exceptional charge of £14.9m.
Administrative expenses for continuing operations in 2002 included an exceptional charge of £1.5m.

Total operating profit is after charging:	2003 £m	2002 £m
Operating lease rentals		
– Property rents	**190.1**	212.0
– Computer and plant hire	**9.4**	3.4
Depreciation, amortisation and impairments of fixed assets	**162.8**	163.4
Auditors' remuneration, including £0.2m (2002 £0.4m) for the company	**1.0**	0.9

The group auditors and their associates also received £1.3m (2002 £4.2m) in respect of non-audit services in the UK. This represents less than 5% of consultancy and professional services costs of the group for 2003. This included other assurance work of £0.7m (2002 £nil), tax advice of £0.3m (2002 £0.3m) and other of £0.3m (2002 £3.9m).

3 Exceptional items	Continuing operations 2003 £m	Discontinued operation 2003 £m	Total 2003 £m	Continuing operations 2002 £m	Discontinued operation 2002 £m	Total 2002 £m
Profit/(loss) on disposal of fixed assets	**5.1**	**–**	**5.1**	(12.2)	6.2	(6.0)
Loss on disposal or closure of operations						
Provision for loss on closure of operations	**(34.5)**	**–**	**(34.5)**	–	–	–
Loss on disposal of business (see note 4)	**–**	**(123.2)**	**(123.2)**	(12.6)	(2.3)	(14.9)
Share of joint venture loss on closure of business	**–**	**–**	**–**	(5.6)	–	(5.6)
Total exceptional items before taxation	**(29.4)**	**(123.2)**	**(152.6)**	(30.4)	3.9	(26.5)
Attributable tax credit (see note 6)	**9.4**	**1.7**	**11.1**	1.6	0.4	2.0
	(20.0)	**(121.5)**	**(141.5)**	(28.8)	4.3	(24.5)

Provision for loss on closure of operations relates to the withdrawal from certain wellbeing services.

As detailed in note 5 an exceptional interest credit of £92.1m arose in the year to 31st March 2003, the tax on which is £27.6m.

In addition, in 2002 the following items included in continuing operating profit were regarded as exceptional:
– £10.4m charge relating to the withdrawal of the on-line photographic services of bootsphoto.com; and
– £6.0m additional costs incurred within Boots The Chemists on the cost reduction programme and leisure exit.
The attributable tax credit was £4.9m.

4 Acquisition and disposal of businesses

(i) Acquisitions

All businesses acquired have been accounted for using the acquisition method of accounting. None of these were individually significant and are therefore not shown separately.

During the year the company agreed to acquire Granada's 40% stake in Digital Wellbeing Limited (DWL) for £1. In addition, Boots placed DWL in funds to settle £5.1m of Granada's loan funding of the company. Additionally, Boots The Chemists acquired a number of pharmacy businesses for £1.2m. There were no significant fair value adjustments in respect of any of these acquisitions.

(ii) Disposals	2003 £m	2002 £m
Intangible fixed assets	–	(2.8)
Tangible fixed assets	(109.9)	(6.8)
Stocks	(91.4)	(1.8)
Debtors	(6.4)	(0.8)
Cash	(21.5)	–
Other creditors and provisions	80.9	–
Net assets disposed of	(148.3)	(12.2)
Related goodwill	(349.3)	(22.4)
Disposal and other termination costs	(21.6)	(5.5)
Consideration	396.0	25.2
Loss on disposal of businesses	(123.2)	(14.9)
Share of joint venture loss on closure of business	–	(5.6)
Total loss on disposal	(123.2)	(20.5)

The principal disposal in the year was the sale of Halfords Limited (completed on 30th August 2002) to CVC Capital Partners. Halfords has been treated as a discontinued operation. The consideration of £396.0m reflects the final settlement on completion of the net asset value statement in December 2002.

The principal disposals in the year to 31st March 2002 were the sale in July 2001 of the skincare brands, Onagrine and Nobacter, to Beiersdorf, the disposal of the factory in France, an agreement with Mitsubishi Corporation (a joint venture partner) in July 2001 to close trial retail stores in Japan, and the disposal in August 2001 of the Halfords' garage service business to the Automobile Association.

(iii) Net cash inflow for acquisitions and disposals	2003 £m	2002 £m
Acquisition of businesses	(1.2)	(0.6)
Disposal of businesses	396.0	25.2
Cash balance sold with business	(21.5)	–
Cash balances acquired with businesses	1.0	–
Deferred consideration in respect of prior year acquisitions and disposals	0.6	1.0
Costs of disposals paid	(8.6)	(3.4)
Investment in joint ventures	(9.3)	(19.9)
Repayment of loan by joint venture	1.1	1.6
	358.1	3.9

5 Net interest receivable and similar items

	Notes	2003 £m	2002 £m
Interest payable and similar charges:			
Bank loans and overdrafts		**(7.9)**	(9.3)
Other loans	a	**(23.9)**	(42.2)
Finance lease charges		**(0.9)**	(1.0)
Interest capitalised		**–**	0.3
Income from interest rate swaps		**22.0**	29.3
		(10.7)	(22.9)
Interest receivable and similar income		**16.6**	14.5
Increase in value of investment in 10.125% bond 2017	a	**5.8**	21.9
Share of interest of joint ventures		**(0.4)**	(0.3)
Net interest receivable and similar items before closure of interest rate swaps		**11.3**	13.2
Exceptional interest on closure of interest rate swaps		**92.1**	–
Net interest receivable and similar items	b	**103.4**	13.2

a Included in other loans is interest payable on the 10.125% bond 2017 of £5.8m (2002 £25.3m) and eurobond of £16.5m (2002 £16.5m). The 10.125% bond 2017 was redeemed on 25th June 2002. Following redemption there is no further impact on the profit and loss account. See note 18.

b Interest rate swaps – During the year the group reviewed its interest rate management policy and concluded that certain interest rate swaps were no longer an effective hedge to liabilities. As a result the group closed out £1,315m of interest rate swaps. £1,100m of these were lease related, and their closure resulted in the receipt of a net cash premium of £53.8m.

The group has also reviewed its accounting policies for hedging instruments to take account of recent developments in this area of accounting. In the light of current best practice and consistent with its change in treasury management practice the group has decided to adopt a new policy. This is shown in the accounting policies note on derivative financial instruments on page 38.

Under the group's previous accounting policy the £53.8m premium referred to above would have been released to the profit and loss account over the remainder of the original terms of the swap contracts, which at 31st March 2002 had an average maturity of 10 years. The group would also have continued to treat the unamortised surplus of £53.0m at 31st March 2002 from previous swap contract closures in the same way. The effect would have been to increase profits in future years as a consequence of a past treasury policy which has now been discontinued.

Under the group's new policy the surplus received in cash on closing out lease related swaps of £53.8m has been reported in the profit and loss account as an exceptional item. The unamortised surplus of £46.8m (£53.0m at 31st March 2002) from replacing swaps last year with equivalent derivatives has also been reported as an exceptional item following the closure of those replacement swaps. In addition a further £200m of interest rate swaps have been closed since 31st March 2003, and a cost of £13.0m has been included in the accounts to reflect this. This along with the surpluses noted above and other related items leaves a net exceptional credit to interest of £92.1m that would not have been credited under the previous policy.

A surplus of £12.2m arose in the period on closing out a portion of the swaps related to debt other than leases to which, therefore, hedge accounting continues to apply. Accordingly, this surplus (£11.0m at 31st March 2003) is held in the balance sheet and will be released to profit and loss account in accordance with the original maturities of the interest rate swaps closed out.

On adopting the new policy the directors have considered the extent to which it requires a restatement of figures reported in prior years. The change in accounting policy affects transactions where swap contracts are closed out without replacement by economically equivalent arrangements. As the group has not previously encountered these circumstances the directors have concluded that no prior year restatement is required.

6 Tax on profit on ordinary activities

	2003 £m	2002 £m
Current tax:		
UK corporation tax at 30.0% (2002 30.0%)	**210.4**	158.4
Share of tax credit of joint ventures	**(1.5)**	(6.2)
Adjustments in respect of prior periods	**(1.6)**	(0.9)
	207.3	151.3
Relief for overseas taxation	**(6.6)**	(3.6)
	200.7	147.7
Overseas taxation	**15.6**	6.8
Total current tax charge for the year	**216.3**	154.5
Deferred taxation (see note 20):		
Share of deferred tax of joint ventures	**(0.1)**	(0.1)
Origination and reversal of timing differences	**(23.5)**	36.8
Tax on profit on ordinary activities	**192.7**	191.2
Tax credit included above attributable to exceptional operating items	**–**	(4.9)
Tax credit included above attributable to exceptional non-operating items	**(11.1)**	(2.0)
Tax charge included above attributable to exceptional interest	**27.6**	–

Reconciliation of current tax charge
The UK standard rate of corporation tax for the year is 30.0% (2002 30.0%). The actual tax charge for the current year exceeds (previous year is below) the standard rate for the reasons set out in the following reconciliation:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	**494.9**	595.8
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30.0% (2002 30.0%)	**148.5**	178.7
Factors affecting charge for the year:		
Changes in accelerated capital allowances	**7.0**	(4.4)
Changes in pension fund prepayment	**6.3**	(25.5)
Other timing differences	**4.0**	2.4
Intangibles amortisation	**(4.5)**	(12.2)
Disallowable expenses	**19.3**	10.2
Exceptional items	**34.8**	3.1
Foreign tax charged at higher rates than UK standard rate	**2.5**	3.1
Prior year adjustments	**(1.6)**	(0.9)
Total current tax charge for the year	**216.3**	154.5

Taxation on gains on properties used for the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

The group has only recognised as a deferred tax asset overseas losses which are likely to be utilised in the next five years. Where there is no certainty of recovery no asset has been recognised. Unprovided deferred tax on losses net of amortisation is £20.8m (2002 £13.4m).

7 Profit for the financial year attributable to shareholders

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

Of the profit attributable to shareholders, £1,274.3m (2002 £nil) is dealt with in the financial statements of the company.

8 Dividends paid and proposed

	2003 p per share	2002 p per share	2003 £m	2002 £m
Interim	**8.4**	8.1	**69.3**	71.5
Final proposed	**20.2**	19.3	**161.4**	169.1
	28.6	27.4	**230.7**	240.6

9 Earnings per share

	2003	2002
Basic earnings per share before exceptional items	**45.2p**	49.9p
Effect of exceptional items	**(9.2)p**	(4.0)p
Basic earnings per share	**36.0p**	45.9p
Diluted earnings per share before exceptional items	**45.1p**	49.8p
Effect of exceptional items	**(9.2)p**	(4.0)p
Diluted earnings per share	**35.9p**	45.8p

The calculation of basic and diluted earnings per share is based on:

Earnings	2003 £m	2002 £m
Earnings for basic and diluted earnings per share calculation before exceptional items	**378.7**	440.3
Exceptional items (see note 3)	**(77.0)**	(36.0)
Earnings for basic and diluted earnings per share calculation	**301.7**	404.3

Number of shares	2003 million	2002 million
Weighted average number of shares used in basic earnings per share calculation	**838.1**	881.6
Dilutive effect of options	**1.6**	2.4
Weighted average number of shares used in diluted earnings per share calculation	**839.7**	884.0

The weighted average number of shares used in basic earnings per share calculation excludes shares held by The Boots ESOP Trust, the QUEST and unappropriated shares held by Boots Share Plan Trustees.

The dilutive effect relates to options under an employee savings related scheme and executive option schemes.
Basic and diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

10 Intangible fixed assets

Group	Purchased goodwill £m	Patents, trademarks and other product rights acquired £m	Total £m
Cost			
At 1st April 2002	31.1	297.2	328.3
Currency adjustments	–	7.4	7.4
Additions	0.9	0.3	1.2
Disposal of business	–	(0.2)	(0.2)
Disposals	(1.0)	(0.3)	(1.3)
At 31st March 2003	**31.0**	**304.4**	**335.4**
Amortisation			
At 1st April 2002	5.0	25.1	30.1
Currency adjustments	–	0.4	0.4
Charge for the year	1.4	2.8	4.2
Disposal of business	–	(0.2)	(0.2)
Disposals	(0.1)	(0.3)	(0.4)
At 31st March 2003	**6.3**	**27.8**	**34.1**
Net book value at 31st March 2002	26.1	272.1	298.2
Net book value at 31st March 2003	**24.7**	**276.6**	**301.3**

Brands acquired by the company or by its subsidiaries, namely Clearasil, Dobendan and its derivatives, and Migränin are well known and well positioned in their markets and Boots Healthcare International (BHI) plans to improve this position. BHI concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review is being undertaken. The valuation of these brands is significantly in excess of latest carrying value of £264.2m.

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1st April 2002	846.8	368.8	1,534.3	2,749.9
Currency adjustments	1.4	1.1	0.2	2.7
Additions	6.6	28.0	114.6	149.2
Disposals	(57.9)	(24.1)	(248.6)	(330.6)
Purchase of business	–	–	0.2	0.2
Disposal of business (see note 4)	(25.8)	(3.4)	(182.9)	(212.1)
Reclassifications and transfers	0.5	2.8	(3.3)	–
Revaluation surplus on investment properties	16.4	–	–	16.4
At 31st March 2003	**788.0**	**373.2**	**1,214.5**	**2,375.7**
Depreciation				
At 1st April 2002	66.0	197.3	758.9	1,022.2
Currency adjustments	0.3	0.5	0.2	1.0
Depreciation for year	8.8	39.0	93.7	141.5
Disposals	(5.7)	(16.9)	(180.0)	(202.6)
Disposal of business (see note 4)	(8.2)	(1.3)	(92.7)	(102.2)
Reclassifications and transfers	0.5	–	(0.5)	–
Depreciation release on revaluation of investment properties	(0.7)	–	–	(0.7)
At 31st March 2003	**61.0**	**218.6**	**579.6**	**859.2**
Net book value at 31st March 2002	780.8	171.5	775.4	1,727.7
Net book value at 31st March 2003	**727.0**	**154.6**	**634.9**	**1,516.5**

11 Tangible fixed assets continued

The cost of plant and machinery includes £22.2m (2002 £24.4m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £10.1m (2002 £6.0m) and for which the depreciation charge for the year was £3.7m (2002 £4.1m).

Land and buildings includes capitalised interest of £4.6m (2002 £4.6m).

The table on page 47 includes payments on account and assets in course of construction of £26.8m (2002 £32.1m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 2002	67.7
Additions	0.6
Disposals	(48.1)
Revaluation surplus	17.1
Reclassifications and transfers	31.4
At 31st March 2003	**68.7**

Investment properties were valued on the basis of open market value (adjusted to exclude the benefit of formal lease arrangements with group companies, as determined in accordance with the Guidance Notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors) at 31st March 2003 by the group's own professionally qualified staff.

Following the disposal of Halfords Ltd on 30th August 2002 properties retained by the group, but let to Halfords, were reclassified as investment properties and revalued to open market value. All but one of these properties was subsequently disposed of during the year.

Surpluses and deficits arising and the aggregate surplus or deficit is transferred to the revaluation reserve except that any permanent diminution in value of an investment property is taken to the profit and loss account for the year.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This treatment represents a departure from the Companies Act 1985 requirements concerning depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

	Group 2003 £m	Group 2002 £m
Net book value of land and buildings comprises:		
Freehold	**563.8**	596.0
Long leasehold (more than 50 years unexpired)	**144.0**	145.4
Short leasehold	**19.2**	39.4
	727.0	780.8
Analysis of cost or valuation:		
Cost	**1,773.9**	2,120.3
Valuation of properties – Directors 1993	**524.5**	553.3
– Independent 1989 and prior	**8.6**	8.6
Investment properties – Directors 2003	**68.7**	67.7
	2,375.7	2,749.9
Value of tangible fixed assets under the historical cost convention:		
Cost	**2,106.4**	2,487.5
Depreciation	**852.2**	1,016.2
Net book value	**1,254.2**	1,471.3

The valuations of properties (other than investment properties) were based upon existing use.

12 Fixed asset investments

Group	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost				
At 1st April 2002	(24.8)	42.8	156.5	174.5
Additions	–	9.3	8.0	17.3
Disposals	28.0	(42.1)	(20.1)	(34.2)
Share of retained losses	(12.0)	–	–	(12.0)
At 31st March 2003	**(8.8)**	**10.0**	**144.4**	**145.6**
Provision/amortisation				
At 1st April 2002	–	–	52.8	52.8
Disposals	–	–	(9.0)	(9.0)
Impairments	–	1.2	5.6	6.8
Amortisation of own shares – ESOP	–	–	2.1	2.1
– AESOP	–	–	8.2	8.2
At 31st March 2003	**–**	**1.2**	**59.7**	**60.9**
Net book value at 31st March 2002	(24.8)	42.8	103.7	121.7
Net book value at 31st March 2003	**(8.8)**	**8.8**	**84.7**	**84.7**

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost and net book value			
Currency adjustments	–	3.9	3.9
Additions	209.0	1,174.5	1,383.5
At 31st March 2003	**209.0**	**1,178.4**	**1,387.4**

The principal subsidiary undertakings are listed on page 63. The group also has a 50% investment in handbag.com Ltd., a joint venture. Minority shareholders have equity holdings in Boots Piramal Healthcare Ltd., incorporated in India.

Own shares

ESOP
Boots ESOP Trust Ltd, on behalf of The Boots Employee Trust, holds shares in the company which may subsequently be transferred to executive directors and senior employees under Boots Long Term Bonus Schemes (see page 24). At 31st March 2003, the trust held 1.4m (2002 1.8m) shares in the company with a market value of £7.6m (2002 £11.9m) and a nominal value of £0.4m (2002 £0.4m). The maximum number of shares held during the year was as at the beginning of the year and represented 0.2% of issued share capital at that time. Dividends have been waived by the trust. Estimates have been made for the number of shares required for performance cycles which have not yet ended. Their cost, £13.2m as at 31st March 2003, is being charged to the profit and loss account over the relevant performance and service periods. Costs of administering the trust are charged to the profit and loss account.

QUEST
In February 1999 a qualifying employee share ownership trust (QUEST) was established by the company. The purpose of the QUEST is to acquire shares in the company as a means through which shares will be delivered to employees (including executive directors) who exercise options granted in respect of the company's shares under the Boots 1990 SAYE Share Option Scheme.

At 31st March 2003 13.0m (2002 14.9m) ordinary shares with a market value of £68.8m (2002 £100.1m) and a nominal value of £3.2m (2002 £3.7m) were held by the QUEST of which 8.6m shares related to lapsed options. The maximum number of shares held during the year was as at the beginning of the year and these represented 1.7% of the issued share capital at that time. Dividends have been waived by the trust.

12 Fixed asset investments continued

AESOP

In the year to 31st March 2001 an all employee share ownership plan (AESOP) was established by the company. One purpose of the AESOP is to acquire shares to be conditionally gifted to employees and hold them in trust for not less than three years. Under this scheme, which is open to all employees, 1.2m shares (2002 nil) were acquired during the year. A further conditional gift of shares will be made in June 2003. The cost of shares acquired and conditionally gifted is being written off through the profit and loss account over the relevant periods of the schemes. The charge for the current year totalled £8.2m (2002 £5.8m). Dividends are payable on appropriated shares held in the trust, but waived in respect of those unappropriated (if any). At 31st March 2003 2.7m (2002 1.6m) shares were held with a market value at that date of £14.5m (2002 £10.6m) and a nominal value of £0.7m (2002 £0.4m). The maximum number of shares held during the year was as at the end of the period and these represented 0.3% of the share capital issued at that time.

The **ESOP Trust**, **QUEST** and the **AESOP** are considered for accounting purposes to be under the control of the company. Accordingly their results, assets and liabilities are included in the group financial statements of Boots Group PLC.

The group has taken advantage of exemptions under UITF17 'Employee Share Schemes' relating to the Inland Revenue approved SAYE schemes and the QUEST.

13 Stocks

	Group 2003 £m	Group 2002 £m
Manufacturing:		
Raw materials	**27.5**	22.0
Work in progress	**10.0**	7.7
Finished goods	**81.4**	62.9
	118.9	92.6
Retailing	**508.5**	543.6
Property development	**11.2**	11.9
	638.6	648.1

14 Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m
Falling due within one year:			
Trade debtors	**346.1**	317.4	**–**
Owed by subsidiary undertakings	**–**	–	**3.8**
Owed by joint ventures	**0.1**	4.6	**–**
Other debtors	**90.6**	126.8	**–**
Deferred tax asset (see note 20)	**1.7**	2.4	**–**
Prepayments and accrued income	**97.6**	96.2	**0.8**
Corporation tax	**0.5**	2.6	**–**
	536.6	550.0	**4.6**
Falling due after more than one year:			
Other debtors	**110.8**	90.7	**–**
Deferred tax asset (see note 20)	**3.2**	5.4	**–**
	114.0	96.1	**–**
	650.6	646.1	**4.6**

Other debtors include pension prepayments (see note 26).

15 Current asset investments and deposits

	Group 2003 £m	Group 2002 £m	Company 2003 £m
Listed investments	**0.1**	0.1	–
Short term deposits	**293.0**	308.6	**275.0**
	293.1	308.7	**275.0**
Market value of investments listed on the London Stock Exchange	**0.2**	0.2	–

16 Creditors: Amounts falling due within one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m
Borrowings (see note 18)	**186.9**	153.7	**1.3**
Trade creditors	**367.9**	360.1	–
Bills of exchange	**1.0**	1.7	–
Corporation tax	**126.1**	119.4	**1.8**
Taxation and social security (including VAT and other sales taxes)	**33.0**	53.8	–
Other creditors	**122.1**	161.7	**7.3**
Accruals and deferred income	**114.3**	155.2	**3.3**
Dividends (see note 8)	**161.4**	169.1	**161.4**
	1,112.7	1,174.7	**175.1**

17 Creditors: Amounts falling due after more than one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m
Borrowings (see note 18)	**361.1**	401.7	**308.8**
Due to subsidiary undertakings	–	–	**6.2**
Due to joint ventures	**2.7**	9.4	–
Other creditors	**6.0**	7.8	–
Accruals and deferred income	**32.0**	61.1	–
	401.8	480.0	**315.0**

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

18 Borrowings

	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m
Bank loans and overdrafts repayable on demand		**149.7**	111.2	**1.3**
Other bank loans and overdrafts	a	**86.0**	101.7	–
Variable rate notes – Sterling	b	**0.5**	2.7	–
– Euro		–	3.5	–
10.125% bond 2017	c	–	5.8	–
5.5% eurobond 2009	d	**300.0**	300.0	**308.8**
Net liability under currency swaps	e	–	12.4	–
Obligations under finance leases		**11.8**	18.1	–
		548.0	555.4	**310.1**
Amounts included above repayable by instalments		**81.1**	113.6	–
Repayments fall due as follows:				
Within one year:				
– Bank loans and overdrafts		**166.2**	111.2	**1.3**
– Obligations under finance leases		**4.2**	7.9	–
– Other borrowings		**16.5**	34.6	–
		186.9	153.7	**1.3**
After more than one year:				
– Within one to two years		**21.9**	40.6	–
– Within two to five years		**39.2**	61.1	–
– After five years		**300.0**	300.0	**308.8**
		361.1	401.7	**308.8**
		548.0	555.4	**310.1**

a Other bank loans and overdrafts include £69.3m (2002 £85.1m) that relate to the factoring of certain rental commitments over a ten-year period up to March 2007, £30m (2002 £85.1m) of which was swapped into a floating rate of interest.

b Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.

c A subsidiary, Boots Investments Limited, owned all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The Boots Company PLC entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet nets the present value of the investment held by the subsidiary against the borrowing by the company. Note 5 discloses the appreciation in value of the investment held by the subsidiary and the interest charge on the borrowing by The Boots Company PLC. The bond was redeemed on 25th June 2002.

d The 5.5% eurobond 2009 was transferred from The Boots Company PLC to the new holding company, Boots Group PLC, on 20th January 2003 at its market value on that date of £308.8m.

e On the disposal of Boots Pharmaceuticals in 1995 the group put in place a series of matching swaps which matured in 2002/03 and were the equivalent to depositing US dollars and borrowing sterling. The net liability shown above represented the effect of translating these swaps into sterling at the year end exchange rate.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted at 31st March 2003 are; £150m (2002 £300m) of the 5.5% eurobond 2009, £30m (2002 £85.1m) of factored rental commitments and £200m of index linked swaps. Further details are provided in the financial review.

All borrowings are unsecured.

19 Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review.

The disclosures for short term debtors and creditors have been excluded from the numerical disclosures in sections (i) and (ii) below as permitted by FRS13 'Derivatives and Other Financial Instruments: Disclosures'.

(i) Fair values of financial assets and liabilities

The fair values of currency and interest rate swaps and fixed rate borrowings have been determined with reference to market prices. All other material financial assets and liabilities are at floating rates of interest and therefore their fair value and book value are equal.

	Note	**Book value 2003 £m**	**Fair value 2003 £m**	Book value 2002 £m	Fair value 2002 £m
Primary financial instruments held or issued to finance the company's operations:					
Cash in hand and bank		**203.4**	**203.4**	100.4	100.4
Current asset investments and deposits		**293.1**	**293.2**	308.7	308.7
Other financial assets	a	–	–	0.5	0.5
Bank loans and overdrafts repayable on demand		**(149.7)**	**(149.7)**	(111.2)	(111.2)
Eurobond		**(300.0)**	**(310.8)**	(300.0)	(296.9)
Obligations under finance leases		**(11.8)**	**(11.8)**	(18.1)	(18.1)
Other borrowings (excluding currency swaps)		**(86.5)**	**(92.6)**	(113.7)	(119.3)
Other financial liabilities	a	**(0.5)**	**(0.5)**	(0.6)	(0.6)
Derivative financial instruments held to manage interest rate and currency profile:					
Interest rate swaps		**(10.1)**	**1.0**	11.7	33.9
Currency swaps (see note 18)		–	–	(12.4)	(14.7)

a Other financial assets and liabilities are not included in net debt (see note 24).

(ii) Interest rate risk profile

The tables below reflect the interest rate risk profile after taking into account the effect of interest rate swaps.

(a) Financial liabilities

Currency	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is payable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	(525.3)	(1.1)	(0.5)	(526.9)	6.0	5.3
Other	(30.9)	–	(0.8)	(31.7)	–	–
At 31st March 2003	**(556.2)**	**(1.1)**	**(1.3)**	**(558.6)**	**6.0**	**5.3**
Sterling	(503.3)	(18.1)	(0.5)	(521.9)	6.2	1.6
Other	(17.9)	(14.0)	(0.5)	(32.4)	8.7	0.7
At 31st March 2002	(521.2)	(32.1)	(1.0)	(554.3)	7.3	1.2

The sterling and other financial liabilities on which no interest is paid have weighted average periods to maturity of three and two years respectively (2002 five and two years).

19 Financial instruments and derivatives continued
(ii) Interest rate risk profile continued

(b) Financial assets

Currency	Floating rate £m	Fixed rate £m	Financial assets on which no interest is receivable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	391.5	0.3	0.2	392.0	2.0	–
Other	91.2	10.3	3.0	104.5	3.1	0.6
At 31st March 2003	**482.7**	**10.6**	**3.2**	**496.5**	**3.1**	**0.6**
Sterling	317.8	0.5	–	318.3	5.0	3.0
Other	93.6	5.7	2.0	101.3	3.3	1.0
At 31st March 2002	411.4	6.2	2.0	419.6	3.4	1.1

Other financial assets on which no interest is received are repayable on demand.
The other currency financial assets relate mainly to bank deposits held by foreign subsidiary companies.
The majority of the floating rate assets and liabilities receive or pay interest based on rates ruling in the London inter-bank market.

(iii) Foreign currency exposure profile
Operations with a sterling functional currency have Euro and US dollar monetary assets/(liabilities) amounting to £11.1m (2002 £(14.5)m) and £4.3m (2002 £(7.2)m) respectively. Operations with an other financial currency have US dollar monetary assets of £2.3m (2002 £nil).

There were no other material foreign currency monetary assets and liabilities that may give rise to an exchange gain or loss in the profit and loss account.

(iv) Maturity of financial facilities
The group's undrawn committed facilities at 31st March 2003 of £462m (2002 £600m) expire in March 2004.

(v) The maturity of borrowings
Details are shown in note 18.

(vi) Hedging
Gains arising from the hedging of interest rates are explained in note 5. Deferred gains of £11.0m resulting from the closure of interest rate swaps in respect of fixed rate borrowings are held in the balance sheet. It is expected that £2.5m will be recognised in the profit and loss account next year.

20 Provisions for liabilities and charges

Group	Deferred taxation £m	Vacant property provisions £m	Closure or termination of operations £m	Total £m
At 1st April 2002	167.2	10.7	–	177.9
Transfer from debtors (see note 14)	(7.8)	–	–	(7.8)
	159.4	10.7	–	170.1
Currency adjustment	3.1	–	–	3.1
Profit and loss account	(23.5)	1.0	45.7	23.2
Acquisition of business	(7.1)	–	–	(7.1)
Disposal of business	(9.3)	–	–	(9.3)
Utilised	–	(2.1)	(9.0)	(11.1)
Transfer to debtors (see note 14)	4.9	–	–	4.9
At 31st March 2003	**127.5**	**9.6**	**36.7**	**173.8**

The vacant property provisions represent recognition of the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of these provisions will vary according to the individual properties concerned.

The provision for closure or termination of operations relates to recognition of costs arising as a result of the Halfords disposal, the withdrawal from certain wellbeing services and the rationalising of the group's manufacturing facilities. The majority of the costs are expected to be incurred in the next two years.

20 Provisions for liabilities and charges continued

	Group 2003 £m	Group 2002 £m
Analysis of deferred taxation provision:		
Accelerated capital allowances	**74.2**	94.0
Intangibles amortisation	**33.1**	24.4
Pension prepayments	**44.8**	51.6
Other items	**(24.6)**	(2.8)
	127.5	167.2
Deferred tax asset:		
Overseas losses (included in debtors – see note 14)	**4.9**	7.8

Unprovided deferred tax relating to property revaluations and rolled-over gains is not readily quantifiable but it is expected to be fully offset by available capital losses.

21 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1st April 2002	223.2	253.9	254.4	42.6	–	1,243.5	2,017.6
Profit retained	–	–	–	–	–	71.0	71.0
New share capital of The Boots Company PLC issued	–	0.1	–	–	–	–	0.1
Group reorganisation	–	(254.0)	–	(56.7)	310.8	(0.5)	(0.4)
Movement in goodwill (see below)	–	–	–	–	–	349.3	349.3
Revaluation surplus on investment properties	–	–	17.1	–	–	–	17.1
Revaluation surplus realised on disposals	–	–	(10.2)	–	–	10.2	–
Revaluation reserve element of depreciation charge	–	–	(1.0)	–	–	1.0	–
Repurchase of shares (see note 22)	(19.7)	–	–	19.7	–	(462.8)	(462.8)
Currency adjustments	–	–	–	–	–	7.5	7.5
At 31st March 2003	**203.5**	**–**	**260.3**	**5.6**	**310.8**	**1,219.2**	**1,999.4**

The revaluation reserve includes £4.6m (2002 £(1.0)m) relating to investment properties.

The balance on the merger reserve at 31st March 2003 represents the difference between called up share capital of the Company and the called up share capital, share premium account and capital redemption reserve of the former holding company (The Boots Company PLC) at 20th January 2003, the date of the capital reorganisation.

Goodwill set off against reserves is as follows:

	£m
At 1st April 2002	743.6
Goodwill released on disposal of business	(349.3)
At 31st March 2003	**394.3**

Company	Called up share capital £m	Capital redemption reserve £m	Profit and loss account £m	2003 Total £m
Profit retained for the financial period	–	–	1,112.9	**1,112.9**
Group reorganisation:				
– issue of shares in Boots Group PLC	209.0	–	(0.4)	**208.6**
– issue of preference shares	0.1	–	–	**0.1**
– redemption of preference shares	(0.1)	0.1	(0.1)	**(0.1)**
Repurchase of shares (see note 22)	(5.5)	5.5	(120.1)	**(120.1)**
At 31st March 2003	**203.5**	**5.6**	**992.3**	**1,201.4**

22 Share capital

	Number of shares 2003 million	Number of shares 2002 million	2003 £m	2002 £m
Ordinary shares of 25p each:				
Authorised	**1,200.0**	1,200.0	**300.0**	300.0
Allotted, called up and fully paid	**813.8**	892.6	**203.5**	223.2

The figures in 2003 relate to Boots Group PLC and in 2002 to The Boots Company PLC.

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Option schemes	–	–	0.1

Changes in authorised, allotted and issued ordinary share capital

On 20th January 2003 under a Scheme of Arrangement between The Boots Company PLC, the former holding company of the Group, and its shareholders under section 425 of the Companies Act 1985, and sanctioned by the High Court on 20th January 2003, all the issued shares in that company were transferred to Boots Group PLC in consideration for the allotment of one ordinary share of 25p each in Boots Group PLC for each ordinary share of 25p each in The Boots Company PLC held on the record date (17th January 2003).

The Company (Boots Group PLC) was incorporated on 31st May 2002 with the name of Halfords Group PLC, which was changed on 11th October to Boots Group PLC.

Shares were issued as follows:

- 2 ordinary shares of £1 each were issued on incorporation.
- 49,998 5% cumulative redeemable preference shares of £1 were issued at par on 10th June 2002 to Deutsche Bank AG London Branch for £49,998 against an undertaking to pay cash to the company on 31st December 2002.
  The entire issued cumulative redeemable preference share capital was subsequently redeemed at par on 21st June 2002.

At an Extraordinary General Meeting of the company held on 31st October 2002, further changes to the share capital of the company were made as follows:

- each of the 49,998 authorised but unissued ordinary shares of £1 each and the 2 issued ordinary shares of £1 each was sub-divided into 4 ordinary shares of 25 pence each;
- each of the 50,000 authorised but unissued redeemable preference shares of £1 each was redesignated as an ordinary share of £1 each and each such ordinary share was sub-divided into 4 ordinary shares of 25 pence each;
- the authorised share capital of the company was increased from £100,000 to £300m by the creation of a further 1,199,600,000 ordinary shares of 25 pence each.

On 20th January 2003 a further 836,022,389 ordinary shares of 25 pence were issued under a Court approved scheme of arrangement, made pursuant to section 425 of the Companies Act, whereby the company was interposed as the new holding company of the Boots Group. As required by s131 of the Companies Act (Merger Relief), no share premium was recognised.

Share repurchase

During the year to 31st March 2003 78.8m ordinary shares were purchased and subsequently cancelled at prices ranging from 520p per share to 686p per share, with an average of 587p per share. The total cost of the purchases was £462.8m, which has been charged against distributable reserves. 1.3m of the repurchased shares were not cancelled until after the year end but the cancellation has been reflected in the allotted, called up and fully paid numbers above.

Share options

Under a savings-related scheme, options have been granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. In 1999 a QUEST was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted (see note 12). At 31st March 2003, options exercisable from 2003 to 2007 at between 410p and 808p per share were outstanding in respect of 4.4m shares.

Under an executive share option scheme, certain senior executives have been granted options to subscribe for ordinary shares after a period of three years from date of grant as long as performance targets are met. At 31st March 2003, options exercisable from 2003 to 2015 at between 438p and 635p per share were outstanding in respect of 4.0m shares.

23 Reconciliation of operating profit to operating cash flows

	2003 £m	2002 £m
Group operating profit	**557.3**	630.0
Operating exceptional items	–	16.4
Group operating profit before exceptional items	**557.3**	646.4
Depreciation, amortisation and impairments of fixed assets	**162.8**	163.4
Loss on disposal of fixed assets	**5.5**	5.6
Increase in stocks	**(77.1)**	(3.3)
Increase in debtors, including pension prepayments	**(27.0)**	(126.1)
(Decrease)/increase in creditors	**(28.7)**	65.5
Other non-cash movements	**(2.4)**	0.2
Net cash inflow before expenditure relating to exceptional items	**590.4**	751.7
Exceptional operating cash flows (see below)	**(8.1)**	(29.3)
Cash inflow from operating activities	**582.3**	722.4

	2003 £m	2002 £m
Exceptional operating cash flows:		
Restructuring and integration costs paid	**(8.1)**	(29.3)
	(8.1)	(29.3)

24 Analysis of net debt

	As at 1st April 2002 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2003 £m
Cash at bank and in hand	100.4	98.6	–	4.4	**203.4**
Bank loans and overdrafts repayable on demand	(111.2)	(38.3)	–	(0.2)	**(149.7)**
Net (overdraft)/cash	(10.8)	60.3	–	4.2	**53.7**
Liquid resources	308.7	(15.8)	–	0.2	**293.1**
Obligations under finance leases	(18.1)	8.1	(1.8)	–	**(11.8)**
Other borrowings (including currency swaps)	(426.1)	37.9	1.7	–	**(386.5)**
Total	(146.3)	90.5	(0.1)	4.4	**(51.5)**

Liquid resources comprise listed investments and short term deposits (see note 15).

25 Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	Group 2003 £m	Group 2002 £m
Contracts placed	**13.1**	35.1

(ii) Annual commitments under operating leases are as follows:

	Group Land and buildings £m	Group Other £m
Expiring:		
Within one year	13.8	0.8
Over one year and less than five years	18.5	2.6
Over five years	131.9	19.4
At 31st March 2003	**164.2**	**22.8**
Expiring:		
Within one year	6.9	0.6
Over one year and less than five years	24.9	3.0
Over five years	176.3	0.1
At 31st March 2002	208.1	3.7

(iii) Other financial commitments

On 1st November 2002 Boots entered into a contractual arrangement with Xansa Plc to provide IT application support and development services over a seven-year period. This arrangement includes a guaranteed minimum payment from Boots to Xansa of £48m, a proportion of which relates to capital expenditure which is not included in (i) above.

(iv) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') is a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll is the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company has been named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. The substance of a settlement by Knoll of consumer actions and claims of insurers and state attorneys general in the United States has been approved, and a settlement of most of the actions in Canada has been approved. The company asserts that the relevant courts in North America have no jurisdiction over it in these cases and this has been approved by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to claims concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims remains uncertain, they believe that it should not have a material adverse impact on the group.

26 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes.

Boots Pension Scheme

The principal UK pension scheme is Boots Pension Scheme.

The independent scheme actuary carried out the latest valuation of the scheme as at 1st April 2001. The UK pension charge for the year has been determined under SSAP24 using the projected unit method and the results under SSAP24 were as follows:

Scheme assets and liabilities as at latest valuation date – 1st April 2001	UK
Market value of assets	£2,274m
Value of accrued liabilities	£1,960m
Funding level	116%

The key assumptions used in determining the accounting costs for the scheme are given below. The financial assumptions were derived from market yields on bonds at the valuation date.

%pa	UK 2001 Valuation
Pension increases	2.4%
General long-term pay increases	3.8%
Investment return	6.0%

The pension charge for the year for Boots Pension Scheme was £31m (2002 £5m). This comprises the regular cost of pensions, offset by amortisation of the surpluses and deficits disclosed by previous valuations over periods up to 13 years. The company contributed £55m (including £5m of pension augmentations) in the year to the Boots Pension Scheme (the main scheme sponsored by the company). A pension prepayment of £150m (2002 £139m) is included within other debtors. These prepayments include £61m paid in advance.

Other pension arrangements

In common with other companies, additional defined benefit pension arrangements exist for certain senior executives in the UK. Since 1st October 2000, new UK employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme. The cost of these arrangements was £2m (2002 £3m).

Total pension cost

The overall pension charge for the year (excluding pension augmentations) comprises:

	2003 £m	2002 £m
Boots Pension Scheme	**31**	5
Other UK pension arrangements	**2**	3
Overseas arrangements	**3**	2

FRS17

Whilst the financial statements for the year ended 31st March 2003 continue to include a pension charge and pension prepayment calculated under the principles of SSAP24 the new standard requires certain additional disclosures. These are noted on the next page. The actuarial valuations with respect to UK schemes have been based on the most recent formal valuations (as noted above) and updated by the Scheme Actuary to 31st March 2003. The figures for overseas schemes are not material and have not been included.

26 Pensions continued

FRS17 'Retirement Benefits' will change fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to UK schemes.

The principal assumptions used by the independent qualified actuaries in updating the latest valuations of each of the schemes for FRS17 purposes were:

% pa	31 March 2003	31 March 2002
Inflation	**2.6%**	2.8%
Rate of general long-term increase in salaries	**4.1%**	4.3%
Rate of increase to pensions in payment	**2.5%**	2.7%
Discount rate for scheme liabilities	**5.5%**	6.1%

The market value of the assets in the UK schemes, the present value of liabilities and the resulting surplus together with the expected rates of return on the assets were as follows:

	Long-term rate of return expected at 31 March 2003 % p.a.	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2002 % p.a	Value at 31 March 2002 £m
Bonds	**4.8**	**2,676**	5.4	2,375
Other net assets	**3.5**	**18**	4.0	17
Total market value of assets		**2,694**		2,392
Present value of scheme liabilities		**(2,540)**		(2,226)
Surplus in scheme		**154**		166
Related deferred tax liability		**(46)**		(50)
Net pension asset		**108**		116

Had the group adopted FRS17 the financial statements would have reflected the following amounts during the year:

For year ending 31 March 2003	£m
Amounts charged to operating profit	
Current service cost	**73**
Past service costs	**5**
Total operating charge	**78**
Amounts included as other finance income	
Expected return on pension scheme assets	**130**
Interest on pension scheme liabilities	**(135)**
Net return	**(5)**
Amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)	
Actual return in excess of expected return on pension scheme assets	**198**
Experience gains arising on the scheme liabilities	**23**
Changes in assumptions underlying the present value of the scheme liabilities	**(208)**
Actuarial gain recognised in STRGL	**13**

26 Pensions continued

Analysis of movement in surplus during the year

For year ended 31st March 2003	£m
Surplus in scheme at beginning of the year	166
Current service cost	(73)
Contributions	58
Past service costs	(5)
Other finance income	(5)
Actuarial gain	13
Surplus in scheme at end of the year	154

History of experience gains and losses

For year ended 31st March 2003	2003
Difference between expected and actual return on scheme assets:	
– Amount (£m)	198
– Percentage of scheme assets (%)	7.3
Experience gains (losses) on scheme liabilities:	
– Amount (£m)	23
– Percentage of the present value of the scheme liabilities (%)	0.9
Total amount recognised in STRGL:	
– Amount (£m)	13
– Percentage of the present value of the scheme liabilities (%)	0.5

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31st March would be as follows:

Group net assets and reserves reconciliation	2003 £m	2002 £m
Net assets as reported	2,000	2,018
Benefit of including net pension asset (UK schemes)	108	116
Less SSAP24 pension prepayment net of deferred tax	(62)	(59)
Net assets restated for FRS17	2,046	2,075
Profit and loss account reserve as reported	1,219	1,244
Benefit of including net pension asset (UK schemes)	108	116
Less SSAP24 pension prepayment net of deferred tax	(62)	(59)
Profit and loss account reserve restated for FRS17	1,265	1,301

27 Staff numbers and costs

The average number of persons employed by the group:

	2003 Number of heads	2003 Full time equivalents	2002 Number of heads	2002 Full time equivalents
Continuing operations				
Boots The Chemists	**60,722**	**39,260**	58,945	37,736
Wellbeing Services	**5,842**	**4,601**	5,409	4,574
	66,564	**43,861**	64,354	42,310
Boots Healthcare International	**3,214**	**3,089**	2,966	2,868
Boots Retail International	**1,062**	**1,020**	1,084	1,036
Group and other	**652**	**580**	497	445
Continuing operations	**71,492**	**48,550**	68,901	46,659
Discontinued operations – Halfords	**3,868**	**2,361**	9,805	5,996
Total	**75,360**	**50,911**	78,706	52,655

Total number of persons employed by continuing operations at 31st March 2003 was 68,740 heads, 47,050 full time equivalents (2002 68,024 heads, 47,065 full time equivalents).

The aggregate payroll cost was as follows:	2003 £m	2002 £m
Wages and salaries	**919.8**	914.2
Social security costs	**61.6**	64.9
Other pension costs	**36.2**	10.1
	1,017.6	989.2

28 Remuneration of directors and directors' shareholdings

Details of the remuneration, long term incentive plan interests, shareholdings, share options and pension entitlements of the directors are included in the directors' remuneration report on pages 21 to 28.

29 Related party disclosures

During the year the group had no material transactions with related parties other than £1.9m of additional funding to handbag.com limited a joint venture in which the group has a 50% interest in the share capital.

For details of investment in joint ventures see note 12.

Principal companies

	Principal activities	Percentage held by company	Percentage held by subsidiary undertakings
Company			
Boots Group PLC	Investing		
Subsidiary undertakings (incorporated in Great Britain)			
The Boots Company PLC	Manufacturing, marketing and distribution of healthcare and consumer products	100	
Boots Healthcare International Ltd.	Marketing consumer products		100
Boots Opticians Ltd.	Registered opticians		100
Boots Properties PLC	Property holding		100
Boots The Chemists Ltd.	Retail chemists		100
Crookes Healthcare Ltd.	Marketing consumer products		100

Percentages relate to holdings of ordinary share capital.

Group financial record

Profit and loss account	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Group turnover from continuing operations	**5,090.3**	4,799.6	4,712.4	4,694.4	4,455.1
Discontinued operations*	**234.9**	528.7	508.5	492.6	589.5
Total group turnover	**5,325.2**	5,328.3	5,220.9	5,187.0	5,044.6
Operating profit from continuing operations	**534.8**	592.1	561.2	524.8	521.1
Discontinued operations	**22.5**	54.3	41.9	48.5	43.0
Group operating profit before exceptional items	**557.3**	646.4	603.1	573.3	564.1
Share of operating loss of joint ventures	**(13.2)**	(20.9)	(23.1)	(8.4)	(1.7)
Total operating profit before exceptional items	**544.1**	625.5	580.0	564.9	562.4
Operating exceptional items	–	(16.4)	(50.5)	(22.0)	(76.3)
Total operating profit including share of joint ventures	**544.1**	609.1	529.5	542.9	486.1
Other exceptional items	**(152.6)**	(26.5)	(38.4)	12.9	(314.0)
Profit on ordinary activities before interest	**391.5**	582.6	491.1	555.8	172.1
Net interest receivable/(payable) and similar items	**103.4**	13.2	1.1	5.9	(1.8)
Profit on ordinary activities before taxation	**494.9**	595.8	492.2	561.7	170.3
Taxation	**(192.7)**	(191.2)	(169.4)	(166.6)	(159.4)
Profit on ordinary activities after taxation	**302.2**	404.6	322.8	395.1	10.9
Minority interests	**(0.5)**	(0.3)	(0.2)	(0.2)	(0.1)
Profit for the financial year attributable to shareholders	**301.7**	404.3	322.6	394.9	10.8
Dividends paid and proposed	**(230.7)**	(240.6)	(231.6)	(221.7)	(214.5)
Retained profit/(loss) for the financial year	**71.0**	163.7	91.0	173.2	(203.7)

*includes inter-segmental turnover

Statement of total recognised gains and losses	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Profit for the financial year attributable to shareholders	**301.7**	404.3	322.6	394.9	10.8
Surplus/(deficit) on revaluation of properties	**17.1**	1.5	(1.8)	(3.3)	(1.4)
Impairment losses on revalued assets	–	–	(0.1)	(1.1)	(1.7)
Currency translation differences	**7.5**	(3.0)	6.1	(6.6)	3.0
Other net gains	–	–	–	–	0.4
Total recognised gains and losses for the year	**326.3**	402.8	326.8	383.9	11.1

Reconciliation of movements in shareholders' funds	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Total recognised gains and losses for the year	**326.3**	402.8	326.8	383.9	11.1
Dividends	**(230.7)**	(240.6)	(231.6)	(221.7)	(214.5)
New share capital issued (net of expenses)	**(0.3)**	0.7	0.9	0.5	8.8
Repurchase of shares	**(462.8)**	(45.9)	–	(95.4)	–
Goodwill relating to acquisitions prior to 1st April 1998	–	–	–	–	(1.4)
Goodwill released on disposal of businesses	**349.3**	22.4	17.9	–	312.2
Net (decrease)/increase in shareholders' funds	**(18.2)**	139.4	114.0	67.3	116.2

Balance sheet

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Intangible fixed assets	**301.3**	298.2	304.6	62.3	64.4
Tangible fixed assets	**1,516.5**	1,727.7	1,812.8	1,799.0	1,788.6
Investments	**84.7**	121.7	140.7	141.2	112.4
Net current assets	**673.0**	528.6	220.4	367.0	71.2
Creditors: Amounts falling due after more than one year	**(401.8)**	(480.0)	(451.9)	(489.2)	(230.7)
Provisions for liabilities and charges	**(173.8)**	(177.9)	(147.7)	(114.2)	(108.6)
Net assets	**1,999.9**	2,018.3	1,878.9	1,766.1	1,697.3
Represented by:					
Equity shareholders' funds	**1,999.4**	2,017.6	1,878.2	1,764.2	1,696.9
Minority interests	**0.5**	0.7	0.7	1.9	0.4
	1,999.9	2,018.3	1,878.9	1,766.1	1,697.3

Cash flow statement

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Cash inflow from operating activities	**582.3**	722.4	664.4	753.7	601.9
Returns on investment and servicing of finance	**75.0**	40.7	(22.6)	(9.8)	(24.9)
Taxation	**(196.7)**	(139.2)	(167.4)	(154.4)	(112.4)
Capital expenditure and financial investment	**(24.1)**	(102.2)	(405.0)	(221.0)	(458.5)
Acquisitions and disposals	**358.1**	3.9	(32.7)	(2.6)	55.2
Equity dividends paid	**(238.3)**	(234.5)	(224.0)	(216.3)	(207.1)
Cash inflow/(outflow) before use of liquid resources and financing	**556.3**	291.1	(187.3)	149.6	(145.8)
Management of liquid resources	**15.8**	(234.3)	305.2	(283.6)	122.8
Financing	**(511.8)**	(55.2)	(71.4)	172.8	28.2
Increase in cash in the year	**60.3**	1.6	46.5	38.8	5.2

Statistics

	2003	2002	2001	2000	1999
Sales growth from continuing operations	**6.0%**	1.8%	0.4%	5.4%	6.0%
Return on shareholders' funds before exceptional items	**18.8%**	23.5%	22.6%	23.4%	23.9%
Basic earnings per share	**36.0p**	45.9p	36.7p	44.6p	1.2p
Basic earnings per share before exceptional items	**45.2p**	49.9p	45.4p	44.9p	41.4p
Net debt (£m)	**(51.5)**	(146.3)	(410.2)	(237.6)	(294.8)
Capital expenditure (£m)	**149.2**	173.6	241.6	252.8	369.4

Return on shareholders' funds is calculated as profit on ordinary activities before exceptional items and after taxation as a percentage of opening shareholders' funds.

Shareholder value

	2003	2002	2001	2000	1999
Dividend per share	**28.6p**	27.4p	26.3p	25.2p	23.8p
Dividend cover before exceptional items	**1.6**	1.8	1.7	1.8	1.8
Share price:					
Highest	**725p**	694.5p	649p	884p	1070p
Lowest	**492p**	565p	479p	457p	836p

Segmental financial record – continuing operations

Turnover, including inter-segmental turnover

	2003 £m	2002 £m	2001 £m	2000 £m
Boots The Chemists	**4,284.4**	4,072.1	3,992.9	3,979.3
Wellbeing Services	**262.5**	231.0	204.6	197.6
	4,546.9	4,303.1	4,197.5	4,176.9
Boots Healthcare International	**460.4**	407.3	362.0	327.1
Boots Retail International	**37.0**	40.3	42.1	32.5
Group and other	**79.8**	74.8	137.0	180.9
Discontinued operation – Halfords	**234.9**	528.7	508.5	492.6

Operating profit before operating exceptional items

	2003 £m	2002 £m	2001 £m	2000 £m
Boots The Chemists	**568.6**	605.2	580.8	554.4
Wellbeing Services	**(28.6)**	(33.1)	(14.5)	5.4
	540.0	572.1	566.3	559.8
Boots Healthcare International	**70.1**	66.7	59.6	32.5
Boots Retail International	**(22.3)**	(24.1)	(43.4)	(33.3)
Group and other	**(66.2)**	(43.5)	(44.4)	(42.6)
Discontinued operation – Halfords	**22.5**	54.3	41.9	48.5

Capital expenditure

	2003 £m	2002 £m	2001 £m	2000 £m
Boots The Chemists	**105.1**	104.8	140.7	174.5
Wellbeing Services	**14.7**	33.7	40.6	14.6
	119.8	138.5	181.3	189.1
Boots Healthcare International	**11.4**	10.3	8.2	10.1
Boots Retail International	**2.1**	2.5	7.4	14.2
Group and other	**4.4**	2.7	5.1	4.0
Discontinued operation – Halfords	**11.5**	19.6	39.6	35.4

The figures for 2001 and 2000 were restated last year for a new group segmentation basis. It was not considered meaningful to restate earlier periods.

Shareholder information

Annual general meetings

The annual general meeting will be held at 11.00 am on Thursday, 24th July 2003 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice.

The proposed date of the annual general meeting next year is 22nd July 2004.

Dividend payments

The proposed final dividend (if approved) will be paid on 22nd August 2003 to shareholders registered on 20th June 2003. Most shareholders (excluding those in Canada and the USA) will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. All applications to join that plan or amend existing instructions under it must be received by the company's registrars by 5.00 pm on 1st August 2003.

The expected dividend payment dates for the year to 31st March 2004 are:

Interim dividend	February 2004
Final dividend	August 2004

Results

For the year to 31st March 2004:

Interim results announced	November 2003
Interim statement circulated	November 2003
Preliminary announcement of full year results	May 2004
Annual report circulated	June 2004

Capital gains tax

For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services

Details of special low cost dealing services in the company's shares may be obtained from:

- **Hoare Govett Limited** (telephone 020 7678 8300)
- **Natwest Stockbrokers** (telephone 0870 600 2050)

Both Hoare Govett Limited and Natwest Stockbrokers are regulated by the Financial Services Authority and members of the London Stock Exchange and have approved the references to themselves solely for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000 only.

Registrar and transfer office

Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone 0870 702 0148.

Company secretary and registered office

M J Oliver, Boots Group PLC, Nottingham NG2 3AA. Telephone 0115 950 6111.
Boots Group PLC is registered in England and Wales (No. 4452715).

Analysis of shareholders at 31st March 2003:

Shareholding range	Number	%	Total holding	%
1–500	47,838	41.12	10,788,434	1.33
501–1,000	27,145	23.33	20,642,816	2.53
1,001–10,000	38,881	33.42	97,976,635	12.02
10,001–100,000	1,883	1.62	48,680,645	5.97
100,001–1,000,000	464	0.40	145,142,871	17.81
Over 1,000,000	128	0.11	491,852,996	60.34
	116,339	100.00	815,084,397	100.00

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Boots Group PLC
1 Thane Road West
Nottingham NG2 3AA
Telephone: 0115 950 6111

www.boots-plc.com